SPECIAL FOCUS INSIDE

NATIONAL PENSION SCHEME – PFRDA BILL 2011

the MANAGEMENT ACCOUNTANT

THE JOURNAL FOR CMAs

OCTOBER 2013 VOL 48 NO. 10 ₹60

ENTERPRISE RISK MANAGEMENT

Can't be left to chance

- INFORMATION TECHNOLOGY RISK MANAGEMENT
- APPLYING ENTERPRISE RISK MANAGEMENT IN FUTURES CONTRACTS
- ERM IN THE FMCG SECTOR IN INDIA
- ENTERPRISE RISK MANAGEMENT IN THE TELECOM BUSINESS
- ERM IN BANKS: CHALLENGES AS OPPORTUNITIES
- PROS & CONS OF ERM

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

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The Institute of Cost Accountants of India

The Institute of Cost Accountants of India (erstwhile The Institute of Cost and Works Accountants of India) was first established in 1944 as a registered company under the Companies Act with the objects of promoting, regulating and developing the profession of Cost Accountancy.

On 28 May 1959, the Institute was established by a special Act of Parliament, namely, the Cost and Works Accountants Act 1959 as a statutory professional body for the regulation of the profession of cost and management accountancy.

It has since been continuously contributing to the growth of the industrial and economic climate of the country.

The Institute of Cost Accountants of India is the only recognised statutory professional organisation and licensing body in India specialising exclusively in Cost and Management Accountancy.

MISSION STATEMENT

The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting.

VISION STATEMENT

The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally.

IDEALS THE INSTITUTE STANDS FOR

- to develop the Cost and Management Accountancy profession
- to develop the body of members and properly equip them for functions
- to ensure sound professional ethics
- to keep abreast of new developments

DISCLAIMER

The views expressed by the authors are personal and do not necessarily represent the views of the Institute and therefore should not be attributed to it.

Behind every successful business decision, there is always a CMA

FROM THE EDITOR'S DESK

Greetings!

There is a need for identifying, assessing, managing and monitoring the business opportunities and risks. Now the question may arise how does an organization take practical steps to enhance opportunities and manage the risks? All entities face uncertainties and challenges. The management has to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity. Enterprise risk management enables managements to effectively deal with uncertainty and associated risks and opportunities, enhancing the capacity to build value.

Enterprise risk management (ERM) is a process designed to anticipate and analyze potential opportunities and threats that could affect the achievement of the organization's objectives and goal. This process is integral to the management and future direction of the organization, and should be structured, consistent, and continuous across the entire organization. ERM includes identifying, assessing, deciding on responses to, and reporting on strategic, human capital, compliance, operational, financial, and hazard-related exposures. These exposures include both 'risks' that might hinder an organization's attainment of its strategic goals, and 'opportunities' that could help the organization to achieve its strategic goals.

Though enterprise risk management provides various important benefits, it has a few limitations too. They are:

- Faulty decision-making.
- Breakdowns because of human simple errors.
- Ignoring controls because of intervention by two or more persons.
- The power of the management to override the ERM process.
- Not weighing the relative costs and benefits of risk responses.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence. COSO has established a common internal control model against which companies and organizations may assess their control systems.

Internal auditor can play a big role in the effective implementation of ERM in an organization. They can:

- Develop a risk-based internal audit programme.
- Audit the risk processes across the organization.
- Give assurance that risks are correctly calculated.
- Evaluate the risk management process.
- Provide assurance on the management of risk.
- Report on the efficiency and effectiveness of internal controls.

ERM supports better structure, reporting, and analysis of risks. Standardized reports that track enterprise risks can improve the focus of directors and executives by providing data that enables better risk mitigation decisions. The variety of data helps leadership understand the most important risk areas. These reports can also help leaders develop a better understanding of risk appetite, risk thresholds, and risk tolerances. ERM helps management to recognize and unlock synergies by aggregating and sharing all corporate risk data and factors, and evaluating them in a consolidated format.

CMAs are professionally trained and have professional knowledge about analysis of information and systems, performance and strategic management. Therefore they can play a significant role in developing and implementing risk management and internal control systems within their organizations. With the help of various cost management techniques, CMAs help to identify the constraint factors that limit the performance of organizations.

This issue has a few relevant articles on 'Enterprise Risk Management'. A new section, 'Letters to the Editor' that started from the last issue, continues. We look forward to feedback from our readers on the articles and overall development of the journal under this section. Please send your mails at editor@icmai.in. We thank all the contributors for this issue and hope our readers enjoy reading the articles.

Companies Act 2013 finally gives CMAs much-awaited recognition

CMA Suresh Chandra Mohanty
President, The Institute of Cost Accountants of India

It is better to strive in one's own dharma than to succeed in the dharma of another. Nothing is ever lost in following one's own dharma. But competition in another's dharma breeds fear and insecurity. – Bhagwad Gita

As we all know that the Indian economy is undergoing various economic challenges which is providing an impetus for resource mobilization and its optimum utilization besides improving efficiency and inculcating cost management and financial literacy. With economic growth hovering at a 10-year low of just around 5 percent and spiralling inflation, there is a devaluation of Indian currency arising out of soaring exchange fluctuations in forex. In this scenario, industry needs regulators to facilitate growth and channelize the resources in desired direction.

The provisions enshrined in the Companies Act, 2013 are expected to increase investors' confidence, strong governance and proper transparency ensuring smooth implementation and application of soft laws. The new legislation will encourage entrepreneurship and create a business-friendly regulated environment in the country. It will also strengthen e-governance measures and facilitate the management of companies to make proper use of electronic innovations. The Act mandates that corporates deploy funds for CSR activities as an investment and the welfare and women empowerment. This will further promote women entrepreneurship in the country and help to serve public interest through CSR activities of the corporate. The Act has further strengthened the regulatory mechanism with the introduction of SFIO and NFRA provisions.

The Companies Act 2013 has given the CMA fraternity long-standing, deserving and much awaited wide recognition by availing CMA expertise in various specialised services for the stakeholders as an expert for various purposes, authorization to issue a declaration in case of registration of a company, appointment as Internal Auditors, Liquidator or Administrator of a company. Cost Accountants with 15 years of experience in practice are also recognized for being appointed as a member of the National Company Law Appellate Tribunal.

We, the CMA fraternity have to rise to the occasion to meet the increasing need of stakeholders while serving the national requirement and fulfil the expectations of society and the government with our significant contributions. I take this opportunity to request all of you to send your valuable suggestions on the two sets of draft rules on the Companies Act 2013 released by the MCA, before the respective due dates.

Programmes held at Lucknow Chapter under the aegis of NIRC of ICAI

As a part of continuing programmes on indirect taxation with the department, Northern India Regional Council in association with lucknow chapter of the Institute has conducted two days Training Programme on the theme 'How to study/scrutinize Financial Records in the context of Central Excise' on 24th – 25thSeptember 2013 at Lucknow Chapter of the Institute. About 350 participants from the department attended two days training sessions. The programme was inaugurated in presence of Shri K.K. Sharma, Chief Commissioner, Central Excise, Customs & Service Tax, Lucknow Zone, Shri Hemanshu Gupta, Commissioner, Central Excise & Service Tax and Shri J.P.Mamgain,-Commissioner(Appeals). I am indebted to other esteemed officials from the Lucknow Commissionerate for their gracious presence and participation during the course of the deliberations. I heartily congratulate resource persons/ speakers S/Shri CMA Vijender Sharma, CMA S.K.Bhatt, CMA Navneet Jain and CMA Chiranjib Das for sharing lucid presentation setting high standard in interpreting the laws and linking with cost records, which attempts to bring about a greater degree of certainty, transparency and governance in the assessment procedure yielding benefits to its stakeholders. I heartily congratulate all the office bearers &

executives of NIRC and Lucknow Chapter, for their relentless effort, warm hospitality and sound administrative skills to make the programme a grand success.

I had the opportunity to address a large number of students of Lucknow Chapter in the interactive session on September 24th, 2013 at Lucknow in presence CMA Sanjay Gupta, CCM, office bearers of NIRC and CMA Chiranjib Das, Joint Director. I have apprised the students about the latest developments and initiatives taken by the Institute for their benefit, Campus Placement for June 2013 final qualified students of U.P at Lucknow, various IT initiatives of the Institute like Independent section of ICMAT where Student can Login to attend the webinar, check schedule of seminar, FAQs etc. Several queries raised by the students in the interactive session were clarified. The students were called upon to awake, arise and contribute to the society and care for humanity, live with honesty, integrity & human values and the Institute's endeavour to see all the students as Cost Leader, Cost Innovator and as the future leaders of India.

I congratulate the Lucknow Chapter for organising an interactive session with the members to apprise about the recent developments relating to the profession and initiatives taken by the Institute to extend scope for the profession.

First Meeting of the National Advisory Board For CMA Vision - 2030

As I mentioned in my last month's communiqué that the Institute has constituted a National Advisory Board (NAB) to provide insight and formulate strategies and policies of the Institute to fit in with the emerging economic environment and provide leadership in the field of Cost and Management Accounting for preparing a Vision 2030 document for the Cost & Management Accounting profession. I am very happy to share that the First meeting of the NAB took place on 26th September 2013 at Mumbai under the chairmanship of Mr. M. Damodaran, I.A.S (Retd). The Board discussed at length the emerging social and business environment and the rising expectations, aspirations of the people and the need for ICAI to deliberate on the present status of the Cost and Management Accounting Profession, develop a vision for the future and chalk out strategies for meeting the challenges. The Board discussed various dimensions of the profession and the members offered valuable inputs / suggestions in an interactive mode. Based on the discussions, a draft approach paper is being prepared.

Meeting of the Coordination Committee

The meeting of the Coordination Committee of ICAI, ICAI (CMA) and ICSI was held on Thursday, the 12th September, 2013 at the office of the Institute of Company Secretaries of India, New Delhi. The meeting was attended by the Presidents, Vice Presidents and Secretaries of all the three Institutes along with other Council members and officials.

The Committee considered reciprocal recognition and exemption for students and the matters of common interest for members of all the three Institutes like Multidisciplinary Partnerships and Dual Certificates of Practice. The committee also discussed about framing of guidelines for entering into partnership with Member of any other professional body. Matter of Joint Representations to UGC and UPSC to consider the CA/CMA/CS qualifications equivalent to M.Com degree for PhD was also discussed during the meeting.

During the meeting, a suggestion came up that the three Institutes may consider conducting a common entrance test on the pattern of CAT / JEE to help a student to pursue multiple courses with one entry level examination and to save avoidable wastage of resources of the three Institutes and the students concerned. After detailed deliberation, the Committee constituted a Group comprising of the Secretaries of the three Institutes to submit a Concept Paper on this matter within a period of two months. The next joint meeting will be hosted by our institute at Kolkata on 23rd November,2013.

Meeting with Confederation of Indian Industry (CII)

As a part of the action plan, I along with Prof. Dr. Asish K. Bhattacharya and Dr. S.K.Gupta met with Director General CII Shri C. Banerjee on 19thSeptember, 2013 at CII office, New Delhi and discussed matters of mutual professional interest specially the areas where the ICAI and CII can associate with each other. It was jointly agreed that the two institutions would collaborate with each other in organizing seminars on Corporate Governance, Sustainability, Ethics and Values, Integrated Reporting, Investors awareness, Cost Management and associate in research studies in core areas and make joint publications. The Institute is being closely associated with CII-TCM Division for industry specific studies on different aspects of Cost and Management Accounting and to bring out guidance notes for industry/professionals.

Meeting with ASSOCHAM

As a part of the action plan, I along with Prof. Dr. Asish K. Bhattacharya and Dr. S.K.Gupta met Secretary General ASSOCHAM Shri D.S.Rawat on 20thSeptember, 2013 at New Delhi and discussed matters of mutual professional interest, sharing expertise for proper dissemination of knowledge to

> IN ORDER TO PROVIDE THE BEST EDUCATION AND TRAINING TO CAT STUDENTS, THE INSTITUTE HAS CONDUCTED ORIENTATION PROGRAMMES FOR THE FACULTIES IN DIFFERENT PARTS OF THE COUNTRY AND ON-LINE SELF-STUDY AND ASSESSMENT MODULE TO CAT STUDENTS WILL BE OFFERED FROM 20TH OCTOBER 2013

meet the greater interest of the stakeholders. The Institute is the patron member of ASSOCHAM and has been associated as "Knowledge Partner" in various programmes on SMEs, Sustainability, Banking and Financial Solutions and also ASSOCHAM-ICAI-CMA SMEs Excellence Award, 2013. The DG, Assocham shown interest to collaborate with ICAI to conduct studies and research.

Professional Development Directorate

The Institute has released a Guidance Note on Compliance Report for the benefit of the stakeholders. The Guidance Note is available at Institute's Headquarters, Delhi Office and all Regional Councils for sale. The members interested may also download the softcopy of this Guidance Note from the Institute's website.

CAT Directorate

The initiatives of the Institute to enhance the employable skills of the youth through the CAT Course received much needed impetus especially in the States of Kerala and Rajasthan. I thank the State Government of Kerala for its support to offer the CAT course to its youth who are in +2 and Degree colleges. The Government of Kerala has devised a unique model to deliver the CAT course which has been well received by the students of Kerala. My colleague, CMA Dr. A.S.Durgaprasad, Vice President, has participated in the launching of Additional Skill Acquisition Programme of Government of Kerala on 26th September, 2013 at Cochin.

My special thanks goes to the Directorate of Higher Education, Rajasthan, for his overwhelming support in introducing CAT Course in all 69 Colleges across the State. The Director, Higher Education, involved all the college authorities at different stages and this approach has led to a huge response for the CAT Course in this State.

In order to provide the best education and training to CAT students, the Institute has conducted orientation programmes for the faculties in different parts of the country and on-line self-study and assessment module to CAT students will be offered from 20th October 2013. Our Institute is committed to the skill development of youth of this great country to create CMA professionals.

Training Department

I am happy to inform that in order to facilitate 100 hours of practical training to inter qualified students, ICMAT module has been started on 12th September 2013. The online module will enable the students for registration, assess for live and recorded webinars, uploading project reports and to complete accumulated learning hours (ALH) to meet the prescribed minimum training requirements for appearing final examination in December, 2013 as a part of the training requirement under the syllabus. .

Programme Directorate

The Institute, in association with SCOPE, organized a programme on Service Tax - Revised System of Taxation of Services and VCES, the amnesty scheme on 30thAugust 2013 at SCOPE Convention Centre, New Delhi. The sessions were quite interactive and well received by the large number of Finance Executives from the Public Sector Enterprises. It was a pleasure to have Shri J.R. Panigrahi, Commissioner, Central Excise, Customs & Service Tax, to address the queries of the participants.

I am happy to inform all of you that I had the opportunity to address the participants during the National Conference on 'Companies Act 2013 – New Rules of the Game' on 19 September 2013 at New Delhi. The Institute joined with ASSOCHAM as an 'Institutional Partner' in organizing this national event. During the programme, an interactive session on draft rules released by the MCA on Companies Act 2013 was very well addressed by Ms. Renuka Kumar, IAS, Joint Secretary, Ministry of Corporate Affairs, Government of India.

I am happy to inform you that a series of Webinars are announced in the interest of the members at large on the contemporary topics of professional relevance to the members and students. For details please visit the website of the Institute.

I am glad to inform that during the month, our Regional Councils and Chapters actively organized many programmes, interactive-sessions for the members on the relevant subject matter such as Companies Act 2013 and Draft Rules, Concurrent Audit of Banks, Corporate Governance, Service Tax- the Emerging Issues, FEMA and so on.

ICWAI MARF Programmes

I am happy to inform you that ICWAI-MARF organised programmes for ONGC Finance Executives on 'Revised Cost Accounting Records Rules and Cost Audit Report Rules' on 26thand 27thAugust, 2013 at CMA Bhawan, New Delhi. The programme on Management of Taxation organized at Port Blair during 10th to 13thSeptember, 2013 was attended by 33 participants from various organizations. The regular three month Certificate Course has been organized for senior officials of Indian Navy on 'Finance, Accounting, Costing, Project and Contracts Management' at CMA Bhawan, New Delhi. The fourth batch of IRAS International Training Programme for Ministry of Railways has been organized for the senior IRAS officers at New Delhi, London and Paris in September/October, 2013.

Examination Directorate

The Examination Directorate is engaged in the pre-examination work for December 2013 term where the "Syllabus 2008" as well as "Syllabus 2012" examinations will be conducted simultaneously for Intermediate and Final Course. Foundation examinations for both the Syllabus will be conducted through on-line mode for the first time in the Institute in December, 2013. The system of despatch of hard copy of the admit card to students will be discontinued from December, 2013 examination term and the same will be available in the website and simultaneously at the Regions and the nearby Chapters. A list of the eligible candidates will be available at examination centers for the convenience of the students.

Technical Directorate

I am pleased to inform you that CASB has approved and recommended Cost Accounting Standard 18 (CAS-18) on Research and Development to the Council of the Institute for approval. CASB has also formed a Task Force to finalize Cost Accounting Standard on SMEs. CASB is also in process of preparing a concept note on treatment of Research and Development costs in Life Sciences/ Pharmaceuticals Industry. The Technical Directorate has compiled a Compendium of all the CASs including Guidance Notes thereof in a form of Booklet.

International Affairs Department

The next SAFA events are scheduled to be held at Dhaka during 10th and 11th October 2013. The events are organised by the Institute of Cost and Management Accountants of Bangladesh. The Institute's representatives will be attending the events.

In order to enhance the visibility on the International forums, our Institute has been associated with the Institute of Directors(IOD) in organising "LONDON GLOBAL CONVENTION 2013" for International Conference on Corporate Governance & Sustainability, Presentation of Golden Peacock Awards and Global Business Meet during 1st to 4thOctober, 2013, at London. CMA Rakesh Singh, Immediate Past President have been invited to address the participants during the Convention as a representative of the Institute.

Directorate of Studies

In order to develop a uniform methodology of teaching across the country, Faculty Meets are organised in all the Regional Councils and major Chapters. PPTs for all the subjects of Foundation, Intermediate and Final Courses have been sent to all the RCs and Chapters. These presentations will be followed by the faculties while delivering their lectures, so that, there will be uniform coverage of syllabus everywhere. Few other initiatives are also taken by the Directorate for the convenience of the students. Directorate of Studies has also made wide participation in various Students' Awareness Programmes to update the prospective students about our profession.

Students, while taking admission/ registration/enrolment to the Foundation/ Intermediate/Final Course, need not to take any hazards and spend time for preparing Demand Drafts w.e.f. 1st October, 2013 and take the advantage of hassle-free admission by depositing their fees either online through Debit / Credit Cards or by depositing cash through PAYFEE Modules in any of the branches of PNB or IDBI.

Board of Studies

Under the aegis of CMA DLS Sreshti, Chairman of the newly formed Board of Studies Committee, there is a group of core-professionals discharging their expertise and services as a specialized wing of the Institute, providing academic inputs and making value addition to the qualitative aspects of teaching-learning process, for the students' community at large.

As an endeavour to support the students for their preparation for Examination, especially under the newly introduced Syllabus 2012, Practice Test Papers for all the subjects have been prepared and published in the website to guide them in an effective way. I am informed that a series of three sets of Practice Test Papers followed by Revisionary Test Papers (RTPs) and Mock Test Papers are in the pipeline to be released during October-November, 2013. Similar services are also being extended to the students who are even pursuing courses under Syllabus 2008. The contribution in the form of e-newsletters (fortnight edition) for students has also gained wide recognition amongst the students' community.

Directorate of Research, Innovation & Journal

Our Institute had organized a seminar on "Companies Act, 2013" in association with Indian Institute of Corporate Affairs on 6th September 2013 at Kolkata. Dr.Navrang Saini, Regional Director, Eastern Region, Ministry of Corporate Affairs was the Chief Guest of the event. The resource persons were Prof. (Dr.) Asish K. Bhattacharyya, Advisor, Advanced Studies of the Institute, Mr. B.B. Chatterjee, Executive Vice President & Company Secretary, ITC Ltd. and CMA Mrityunjay Acharjee, Associate Vice President, Corporate Taxation & Internal Audit, Balmer Lawrie & Co. Ltd. The welcome address was delivered by CMA Manas Kr. Thakur, Chairman, Research, Journal & Innovations Committee of the Institute and the vote of thanks was offered by CMA TCAS Prasad, Chairman T&EF Committee of the Institute. Eminent dignitaries from the industry, profession and academia attended the event.

Our Institute was proudly associated with ASSOCHAM as "Knowledge Partner" and published a research based knowledge study for the summit on "Positioning Bengal – II: Partnering for Growth, Development and Sustainable Security" at Kolkata on 24thSeptember, 2013. Shri Partha Chatterjee, Hon'ble Minister for Commerce and Industries, Public Enterprises, Industrial reconstruction, Information Technology, Parliamentary Affairs, Government of West Bengal was the Chief Guest of the summit. Shri Umashankar Mandal (IAS), Secretary, Department of Environment, Shri Susanta Majumdar (IAS), Secretary, Department of Information Technology & Electronics, Shri Indranil Sengupta (IAS), Secretary, Department of Labour, Shri D S Rawat, National Secretary General, ASSOCHAM, Shri. Sanjay Jhunjhunwala, Chairman (ERDC), ASSOCHAM, CMA Rakesh Singh, Immediate Past President of the Institute, CMA Manas Kr. Thakur, Council Member of the Institute and other dignitaries shared the dais and participated in the deliberation. Eminent dignitaries from the industry and profession attended the event.

Hyderabad Centre of Excellence

The centre organised a seminar on "Concurrent Audit in Banks - A prescriptive approach" on 7thSeptember 2013. The Instructions for preparation of the project report for the certificate programme on "Business Valuation and Corporate Restructuring (BVCR)" were given at Hyderabad on the 15th September 2013. The participants are now working on their respective Projects.

Membership Department

The Institute has extended the facility for payment of fee by the members through the "PayFee Module" of any branches of Punjab National Bank w.e.f. 2nd September 2013 in addition to making payment by cash/cheque/ DD at the Headquarters, Regional Councils and at different Chapters. During the month, 371 members have been admitted to the Associateship; 90 members have been admitted to Fellowship; 02 members of IMA, USA and 03 members of IPA, Australia have been admitted to the Associateship of the Institute.

IT Department

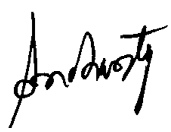
An updated version 2.0 of the XBRL software tool has been made available in the website of the Institute to help members in generating Cost Audit Report and Compliance Report in XBRL format. The Institute has also started the helpdesk services for the members on Toll Free No. 1800 233 0445 during the peak period of filing of the Cost Audit Report and Compliance Report in XBRL format. The members may use this toll free number for any query related to filings.

Navi Mumbai Centre of Excellence

I am happy to inform that the process of creating the infrastructure for "Navi Mumbai Centre of Excellence" has been finalised and the construction works started during the month. The Centre will undertake studies and research on "Banking and Financial Services" Sector.

The festive season is beginning this month. I pray to the almighty for the prosperity and wellness of all the stakeholders. I wish all the members of CMA fraternity and their family on the occasion of Gandhi Jayanti, Navratri, Durga Puja, Vijayadashmi and Id-Ul-Zuha.

With warm regards,



CMA Suresh Chandra Mohanty
1 October 2013

Committee launches programme to develop a professional body of members

CMA (Dr.) P V S Jagan Mohan Rao
Council Member & Chairman,
Corporate and Allied Laws Committee

First of all I would like to thank the Honorable President and the council of the Institute for giving me an opportunity to be the chairman, Corporate and Allied Laws Committee. We have plans to organize programmes and events on Corporate and other Laws.

In the new Companies Act, 2013 the role of CMAs has significantly increased in terms of internal audit, compliance and regulatory.

The Companies Act 2013 that has replaced 57 years old earlier legislation has come out with far reaching changes. The Companies Act emphasizes corporate governance, corporate social responsibility, transparency, collective responsibility and in some cases serious penalty also.

The New Companies Act 2013 expects the various stakeholders – be they shareholders, the directors, the auditors and other regulators – to bring a lot of commitment and dedication to their respective businesses.

Keeping in view the objective of developing a professional body of members and play a vital role in the context of providing leadership, the committee has embarked on programmes of sharing, disseminating and providing to the Government a synthesis of views gathered from our members and students.

The programme comprises rolling out workshops, interactive seminars, and academic industry interfaces to name a few, on the various provisions of the landmark Companies Act, 2013.

The initiative got off to a splendid start in Hyderabad in the form of a three-day interactive seminar on draft rules for four hours each. Members cutting across various fields ranging from employment, practice and independent consultants enthusiastically participated to make the programme a success. Buoyed by the response from Hyderabad we have planned the next band of interactive sessions at Chennai, Vadodara and Surat. Members and students enthusiastically participated and the draft rules were discussed in detail. Members proposed some modifications to the draft rules.

Recently the Government has come out with 2nd set of Draft Rules to the Companies Act 2013. We would like to extend the same type of interactive sessions for collecting the views and suggestions to propose the modifications wherever necessary to the Ministry through the Institute.

We are in the process of undertaking few initiatives to conduct programmes with other major institutions for sharing of views on new provisions and their impact on applicable industries.

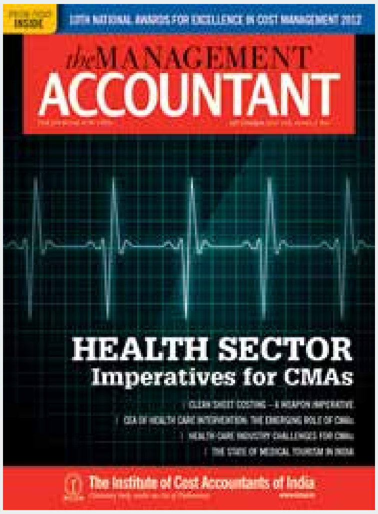
I am pleased to share with honorable members that the institute is planning through this committee to enter in to MoUs with various professional, regulatory bodies of national and International repute.

To bring our students on the latest happenings on the corporate and regulatory front a slew of programmes, events and workshops are proposed to be organized at the regional and national level. This, I am sure, will empower the student community in general and budding CMAs in particular. The students will be playing a very creative role in understanding and building a solid career. We have conducted elocution competition on 'Climate Change: Role of CMAs' at Cochin, Kozhikode and Surat where students and members participated enthusiastically.

I would like to express my heartfelt thanks to all the members who have extended their active support as team effort to make these interactive sessions successful.

CMA (Dr.) P V S Jagan Mohan Rao
1 October 2013

LETTERS TO THE EDITOR



I was really delighted to read *The Management Accountant* with its new look. I am sure that the August and September issues of the magazine will be a source of knowledge to readers from various sectors of industry and society, including sectors like power and health. One could never learn the of calculation of energy charges based on the Gross Calorific Value (GCV) and the Landed Cost of fuel. The article on Carbon Credits, which is relatively a new one, has also been written in a lucid manner. Hopefully, topics on other sectors like steel, coal, cotton and so on and so forth are expected to enrich the issues in the months to come. The entire group deserves appreciation for their sincere, seamless and dedicated effort.

CMA Pranab Kr. Chakrabarty
Howrah

As a member of the ICAI journal committee, I send my warmest thanks for all your hard work and outstanding contribution. I know how much time and energy this assignment demanded, and I deeply appreciate all of your efforts to make it a great success.

As always, it's great to know that we can count on you to go the extra mile. Thank you again for all you have did for the August 2013 issue of *The Management Accountant* and its new look. Keep it up.

CMA Chinmoy Ghosh
Kolkata

I am glad that *The Management Accountant* is getting better quality of articles, cover stories and other contents. The quality of paper and printing has also improved a lot.

I feel that the following areas should also be included in it:

Practical aspect of issues related to Cost Records and Cost Audit (industry wise) must be covered on regular basis.

- Current affairs and the Institute's views on them could be included.
- The domestic and international economy and Indian industry to make CMAs know the world better.

CMA Anil Sharma
Chandigarh

I am one of your members and I would like to tell you I just received the August issue of *The Management Accountant* and I immediately felt that it looked very different. Compared to previous versions, this one looks very good. Thanks for the improvement. Thank you again.

CMA Vikram R Manthalkar

Attention Members

Payment of membership dues

Members, please note that Regulations 7(6) & 7(7) of the Cost and Works Accountants Regulations, 1959 read:

Regulation 7(6) – For non-payment of annual membership fee within six months from the date on which it becomes due, the name of the defaulting member shall be removed from the Register of Members with a prior notice to the defaulting member clearly stipulating therein that his name will be removed from the Register of Members if he does not pay the fee within forty-five days of the receipt of that notice.

Regulation 7(7) – On removal of the name of a member under clause (6), he shall not be entitled to use the descriptive letters 'ACMA' or 'FCMA' as the case may be.

Members are therefore, requested to make payment of their membership fee for FY 2013-14 immediately.

ICAI-CMA SNAPSHOTS

1. MoU between the three Institute on the occasion of establishing Centre for Excellence on 12th September, 2013 at Ajmer

2. Annual General Meeting of Benevolent Fund for the Members of the Institute of Cost Accountants of India held at the Institute's headquarters on 2nd September 2013

3. From the left CMA Dr. Asish K Bhattacharyya, Advisor Advanced Studies ICAI-CMA, CMA Manas Kumar Thakur, Chairman Research, Innovation & Journal committee, Shri Navrang Saini Regional Director Eastern Region, Ministry of Corporate Affairs, and CMA TCA Srinivasa Prasad, Chairman Training & Educational Facilities Committee

4. CMA B.L. Kumar, Chairman, Hyderabad Chapter felicitating CMA Dr. A.S. Durga Prasad, Vice President, at a students programme "Ignite" in Hyderabad

5. CMA S C Mohanty, President of the Institute addressing the gathering at National Conference on Companies Act-2013 on 19th September 2013 in New Delhi. On the dais from left Shri D S Rawat, Secretary General, ASSOCHAM, Shri Atul Dhawan, partner at Deloitte Haskins & Sells, Ms.Preeti Malhotra, Chairperson, ASSOCHAM National Council for Corporate Affairs & CSR, Ms. Renuka Kumar, Joint Secretary, Ministry of Corporate Affairs, Shri G P Madaan, Co-Chairperson, ASSOCHAM National Council for M & A and Founder of Corporate Knowledge Foundation

ICAI-CMA SNAPSHOTS

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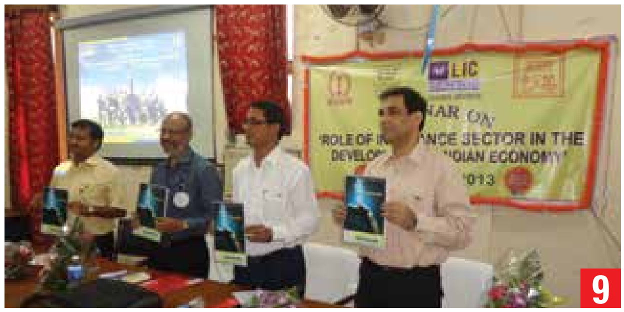

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6. CMA S C Mohanty, President of the Institute lighting the lamp at the inauguration ceremony of an interactive session organized by the Lucknow chapter on 24th September, 2013 in Lucknow

7. CMA S C Mohanty, President of the Institute on the dais with Regional Council members at a training programme on 'How to study/ scrutinize financial records in context with Central Excise Audit' organized by Northern India Regional Council in Lucknow

8. CMA S C Mohanty, President of the Institute addressing the gathering at a training programme on 'How to study/scrutinize financial records in context with Central Excise Audit' organized by Northern India Regional Council in Lucknow

9. Release of a journal at a seminar on role of insurance sector in the Indian economy in Asansol on 4th September, 2013. From the left CMA Sudip Dasgupta Vice Chairman Asansol Chapter, Shri J Barat, Chairman Asansol Insurance Institute and Sr. Divisional Manager of LIC, CMA Manas Kr. Thakur Council Member and CMA Arup Shankar Bagchi, Director Technical (Kolkata) of the Institute

10. President CMA SC Mohanty welcoming Shri Karan K Sharma, Chief Commissioner, Central Excise and Service Tax at Lucknow during the inaugural session of the programme 'How to Study/Scrutinize Books of Accounts in Context with Central Excise Audit' organised by NIRC at Lucknow on 24th September 2013

11. President CMA SC Mohanty during the lamp lighting ceremony at inaugural session of the programme 'How to Study/Scrutinize Books of Accounts in Context with Central Excise Audit' organised by the NIRC at Lucknow on 24th September 2013

ICAI-CMA SNAPSHOTS

Glimpses of summit on Positioning Bengal – II, Partnering for Growth, Development and Sustainable Security, held on 24th September, 2013 in Kolkata

1. Release of Knowledge Series 'Partnering Bengal – II' at the summit

2. CMA Manas Kumar Thakur, Chairman of Research, Innovation & Journal Committee addressing the gathering

3. Shri Bernd Meissner, CEO Hunger Hydraulics addressing the gathering

ICAI-CMA SNAPSHOTS

4. Shri Partha Chatterjee, Hon'ble Minister of Department of Commerce and Industries, Public Enterprises, Industrial reconstruction, Information Technology, Parliamentary Affairs, Government of West Bengal, addressing the gathering. On the dais from the left are Shri D S Rawat National Secretary General ASSOCHAM, Shri Umashankar Mandal (IAS), Secretary Department of Environment, Shri Sanjay Jhunjhunwala, Chairman (ERDC), ASSOCHAM, Shri S N Nundy, Co-Chairman (ERDC) ASSOCHAM, CMA Rakesh Singh, Immediate Past President of the Institute, Shri Susanta Majumdar (IAS), Secretary, Department of Information Technology & Electronics

5.CMA Rakesh Singh, Immediate Past President of the Institute addressing the gathering

6 Shri Suman Mukherjee, industrial economist and Member State Advisory Committee on Education, Government of West Bengal, addressing the gathering

F.No. CCA/DC(T)/2013-98
Government of India
Ministry of Communications & Information Technology
Department of Electronics & Information Technology
Office of Controller of Certifying Authorities
New Delhi

06th September, 2013.

OFFICE ORDER

Subject:- Verification of credentials prior to issuance of Digital Signature Certificate (DSC).

In continuation to the Office Order No. CCA/DC(T)/2013-98 dated 2nd August 2013, and discussions with all CAs on 06.09.2013, the following directions are being issued for strict compliance.

1. DSC will be issued by the CAs only after the application form (with Ink signature) and supporting documents (duly attested as per the minutes of the CA meeting held on 7th October, 2010) have been physically received and verified at the CAs premises.

2. The above will come into force from 1st October, 2013.

(T. A. Khan)
Controller of Certifying Authorities

To
All Certifying Authorities

S. V. Sunder Krishnan
Chairman, ISACA India Task Force. Mr Krishnan is also the Chief Risk Officer of Reliance Life Insurance

INFORMATION TECHNOLOGY RISK MANAGEMENT

IT risk management ensures that benefits of the IT initiative far outweigh the risks taken and the risks are within the risk tolerance limits set by the organization

Pat the CIO of XYZ INC. met up Richard – the CEO and apprised him of a new technology initiative that would bring about a net costs savings of One Hundred thousand dollars for the first year. The initiative would be "Virtualization" using the Cloud Computing Technology that would bring about direct savings in the terms of savings in rack space and servers. Richard was quite happy to hear about this as costs savings was a significant milestone during that year. Pat checked with the vendor that all security requirements would be met. The initiative was implemented with great fanfare. Pat later applied for an innovation award.

The above events are not uncommon incidents in many companies. The moot point is, do these companies have a holistic framework for introducing new technologies and processes. Is there a New Process Review (NPR) committee? Are people selected carefully after appropriate background checks and interviews? Did the board debate the initiative and was it given adequate options? Does the board have the required competence in the form of a director who is an Enterprise IT

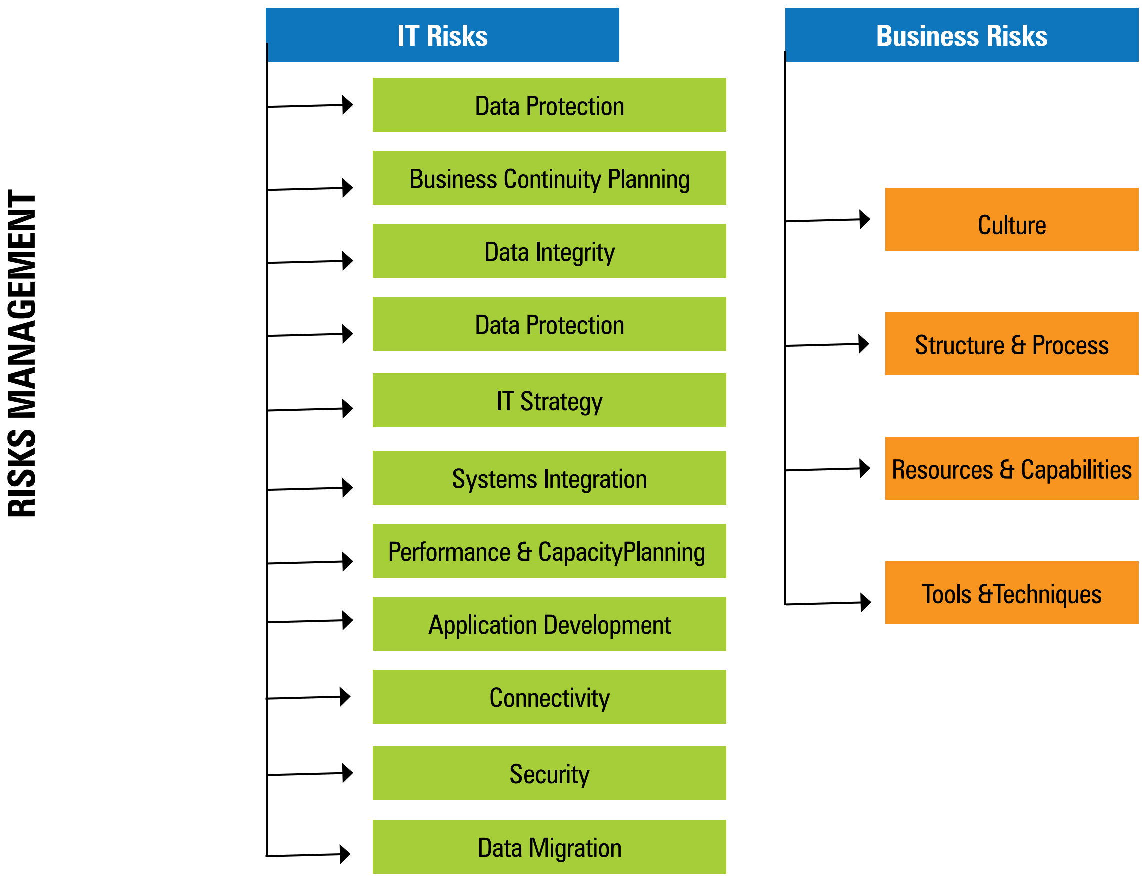
Governance specialist – say a CGEIT who is adept in asking the right questions? Why cloud? How do we secure the cloud? What would be the specific cloud computing technology? What the above governance process ensures is that funds are not squandered and adequate returns are ensured. May be the savings could be One Million Dollars. May be nothing worth while? The next logical question therefore is: Are the benefits of the initiative good enough? Is it worth taking the risk as 48% of Asian business and IT professionals believe that storing company data in an unsecured manner is the biggest risk and only 24% of the persons interviewed believe that benefits of using cloud outweigh the risks. (Source: *www.isaca.org/risk-reward-barometer*) This despite the fact there are secure and private cloud computing technologies available for usage.

48%

OF ASIAN BUSINESS AND IT PROFESSIONALS BELIEVE THAT STORING COMPANY DATA IN AN UNSECURED MANNER IS THE BIGGEST RISK AND ONLY 24% OF THE PERSONS INTERVIEWED BELIEVE THAT BENEFITS OF USING CLOUD OUTWEIGH THE RISKS

IT risk management ensures that benefits of the IT initiative far outweigh the risks taken and the risks are within the risk tolerance limits set by the organization. Therefore it is essential that XYZ Inc has adequate IT governance, security, risk and audit professionals, best practices/processes and the right technologies in place to ensure the above objective. The company would need to have adequate CISA – Certified Information Systems Auditors to review security and controls implemented by PAT to provide assurance to the management of XYZ Inc that risks are managed effectively. IT risk management is therefore a part

IT Risks - Information Security



of the Enterprise Risk Management comprising identification of risks, evaluation of risks and mitigation of the risks either through transfer of risks, reduction of risks to negligible levels and avoidance of the risk.

The other key aspect in IT risk management is that business and IT risks are intertwined and come as a package. In the famous Soc. Generale case study, a rogue trader Jerome Kerviel caused a $7 billion loss to the bank when the bank wound up risky market positions. This was through misuse of access codes in the back office system called Elliot. He posted several false trades in the system using these misappropriated codes to cover speculative positions that he had taken in four currency baskets. He was successful in covering up the unauthorized deals as the IT log identified by a reviewer was quickly dismissed by him as bugs in the system. Thus, a conservative bank with various silo functions such as compliance, security, and audit and risk management could not prevent the loss perpetrated by the rogue trader essentially owing to silo approach by the diverse control functions. The functions failed to mitigate the market risks / positions covertly taken by the rogue trader probably to achieve super profits for the bank and earn him a fat bonus. One of the classic IT risk management process is review of access codes in systems by the owners. In the absence of such positive affirmations from the owners, the access IDs that are not confirmed would be deleted. Unfortunately this process was not complied with in the above case study.

Governance and compliance precludes risk management. It is pertinent to mention that Jerome Kerviel in the above case has disputed all of the above narrative in the suite before the court. Therefore it is important that processes are formalized and transactions well documented. Consequently, it is essential to have a strong culture of governance, risk management and compliance. IT risk management function is a part of the Enterprise Risk Management that deals with IT risks emanating out of business processes. Risks are uncertain attributes of businesses and transactions that may or may not occur to cause an adverse impact on the financial stability or reputation of the business. The IT risks could be loss of data privacy, inadequate data protection, loss of access to systems owing to business disruption mandating an efficient Business Continuity Planning, inaccurate data, ad-hoc IT decisions, disparate systems, non performing systems, highly stressed and slow pace of systems response, inadequate controls over application development, poor programme change management, connectivity & network response issues and silo nature of IT functionaries. IT risk management function, within an enterprise, aims to identify the above risks, evaluate the risks and treat the risks. All these risks mandate an effective IT risk management approach. The Approach could include amongst other strategies: Proactive IT risk governance, proactive IT risk assessments, proactive IT risk reviews, third party audits by specialists such as CISAs – Certified Information Systems Auditors, effective IT risk indicators (KRIs – Key Risk Indicators) highlighted to management of say XYZ Inc in the form of a dashboard, action plans drawn to reduce each IT risk and follow up reviews of the action plans under implementation. Continuous IT risk assessments are therefore a must and such exercises must grapple with probability of the occurrence of each risk and the magnitude of the impact that the risks could have on the finances of the business or reputation of the business. All of the above therefore demand adoption of best practices and frameworks.

For mitigating each of the above risks an effective structure is required. Effectiveness of structure & size of staff is dependent upon the Organization peculiarities, style and goals. Processes need to be formal, documented and customized so as to afford succession planning, agility as well as the solidity that an organization requires. Equipping the organization with the right tools and techniques has become an imperative need given the complexity of the systems in place and nature of the business transactions that are handled by the systems. Consequently, this calls for deployment of smart resource personnel who are constantly trained and kept aware of the emerging IT risks and security issues.

Recent changes on the IT regulatory arena have emphasized the growing expectations of the regulators over privacy and confidentiality of customer data and data integrity. Thus the areas of IT risk management as shown in the above illustration are only pointers to few key areas and as such IT Risk management deals with more than 300 IT processes and controls to be deployed and to grapple with even more number of risks.

To conclude, a blend of business and IT-based risk management approach is essential to have an effective and reliable edifice. It is therefore quintessential that the approach should be framework-based such as COBIT5. Accordingly, people, process and technology should be well organized to traverse through the paths laid down by the above frameworks as well as so cohesive that silo risks are mitigated. This calls for a strong culture, structure and process, well aware and trained manpower and extensive use of modern tools and techniques. Emerging IT security risks, growing regulatory expectations and silo risks that emanate in large enterprises need to be identified, evaluated and mitigated effectively.

Disclaimer: The views expressed by the author are personal and does not represent the views of the above organizations. MA

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Cover stories invited for the November and December 2013 and January 2014 issues of *The Management Accountant*

The cover story for the November 2013 issue of The Management Accountant will be on the 'New Companies Act 2013'.

The cover story for the December 2013 issue will be on the 'Financial stability of Panchayati Raj Institutions (PRIs)'.

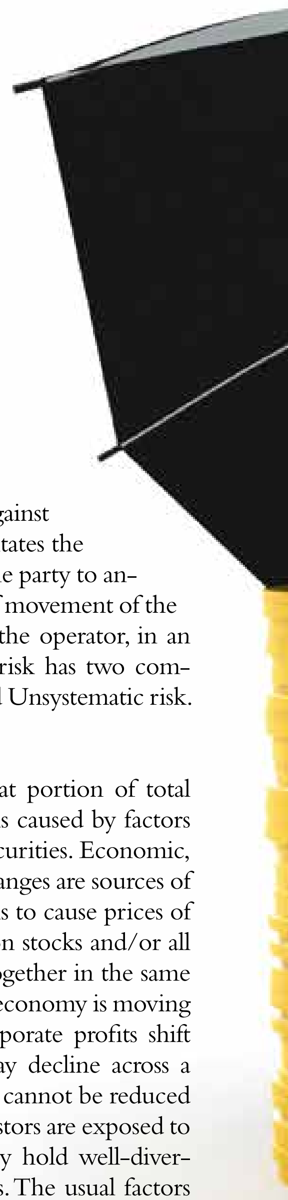
The cover story for the January 2014 issue will be on 'Strategic Cost Management in Banking & Insurance'.

Articles on the topic are invited from readers and authors along with their passport-size photos.

Please send your articles by e-mail to editor@icmai.in followed by a hard copy to CMA Bhawan, Fourth floor, 84 Harish Mukherjee Road, Kolkata 700 025. Hard copies for any month must reach us by the 8th of the previous month.

APPLYING ENTERPRISE RISK MANAGEMENT IN FUTURES CONTRACTS

Futures contracts are important means of hedging as they enable the market participants to alter the risks they face from unexpected adverse price changes



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Dr. Debdas Rakshit
Professor,
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In today's challenging global economy, an organization takes practical steps to link opportunities and risks when managing the business. In this process enterprise risk management (ERM) plays a very pivotal role. In August 2004, the Treadway Commission's Committee of Sponsoring Organizations (COSO) issued its enterprise risk management – Integrated Framework after completing a developmental project. COSO defines ERM as "a process, effected by an entity's board of directors, management and other personnel, applied in strategy-setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."[*http://www.ucop.edu/enterprise-risk management/_files/protiviti_faqguide.pdf*]. "Enterprise risk management (ERM) in business includes the methods and processes used by organizations to manage risks and seize opportunities related to the achievement of their objectives. ERM provides a framework for risk management, which typically involves identifying particular events or circumstances relevant to the organization's objectives (risks and opportunities), assessing them in terms of likelihood and magnitude of impact, determining a response strategy, and monitoring progress." [*http://en.wikipedia.org/wiki/Enterprise_risk_management*].

In the context of ERM, futures contracts play a significant role to hedge against the undesirable risks. It facilitates the transfer of price risk from one party to another. Price risk is the risk of movement of the price of securities, held by the operator, in an unfavorable direction. This risk has two components- Systematic risk and Unsystematic risk.

Systematic risk

Systematic risk refers to that portion of total variability of return which is caused by factors affecting the prices of all securities. Economic, political, and sociological changes are sources of systematic risk. Their effect is to cause prices of nearly all individual common stocks and/or all individual bonds to move together in the same manner. For example, if the economy is moving toward a recession and corporate profits shift down ward, stock price may decline across a board front. This part of risk cannot be reduced through diversification. Investors are exposed to market risk even when they hold well-diversified portfolios of securities. The usual factors that cause systematic risk are:
(a) The Government changes the interest rate policy. (b) The corporate tax rate is increased. (c) The Government resorts to massive deficit financing. (d) The inflation rate increases. (e) The Reserve Bank of India promulgates a restrictive credit policy, etc.

It is calculated with the help of beta coefficient. Beta is used as risk indicator in the mar-

WITH THE HELP OF VARIOUS TYPES OF HEDGING, ONE CAN TAKE POSITIONS IN THE FUTURES MARKET THAT NEUTRALIZES THE RISK AS FAR AS POSSIBLE

ket model. It is the degree of responsiveness of stock return or portfolio returns to the market return.

Unsystematic risk

Unsystematic risk is the portion of total risk that is unique to a firm or industry. Factors such as management capability, consumer preferences and labour strikes cause variability of return in a firm. Unsystematic factors are largely independent of factors affecting securities markets in general. Because these factors affect one firm, they must be examined for each firm. These are uncertainties which are unique to individual securities, and which are diversifiable if large numbers of securities are combined to form well-diversified portfolios. The unique risk of individual securities in a portfolio largely cancel out each other. This part of the risk can be totally reduced through diversification. The factors that are behind unsystematic risk are:

(a) Workers declare strike in a company. (b) The R & D expert of the company leaves. (c) A formidable competitor enters the market. (d) The company loses a big contract in a bid. (e) The company makes a breakthrough in process innovation. (f) The Government increases custom duty on the material used by the company. (g) The company is not able to obtain adequate quantity of raw materials from the suppliers etc.

Systematic risk is separable from the investment and tradable in the market with the help of index futures or stock futures contracts. When this risk is hedged perfectly with the help of derivatives contracts, only unsystematic risk of the portfolio remains [*The Stock Exchange Mumbai*, Pp.29-30]. In this article, an attempt has been made to explain the different types of hedging and hedge ratio to reduce the systematic risk.

Hedging using futures contracts

Hedging is the process of reducing exposure to risk. Thus, a hedge is any act that reduces the price risk of a certain position in the cash market. Futures contracts are important means of hedging as they enable the market participants to alter the risks they face from unexpected adverse price changes. Futures act as a hedge when a position is taken in them which is opposite to that of the existing or anticipated cash position. Thus, hedgers sell futures contracts when they have taken a long position in the spot market and they buy the futures if they have taken a short position in the spot market. The basic objective of hedging is usually to take a position that neutralizes the risk as far as possible. Generally, there are three types of **hedges – Short Hedge, Long Hedge and Cross Hedge**.

Short Hedge

A short hedge is a hedge that involves a short position in futures contracts i.e., in a short hedge, the hedge sells futures contracts, apprehending that prices would fall. In the event of a fall in the prices, losses would be sustained in the spot position. For a short hedger, who is currently long in the spot market or has an obligation to sell in the future time at an unknown price, a loss in the cash market would result when the prices do fall, but a gain would occur due to the short position in futures. Of course, the prices may rise also. In that case, a gain in the spot market will result but, simultaneously, a loss would be sustained in the futures position.

Illustration

Suppose, on 5th April, 2010 Mr. X has a portfolio of equities valued at Rs.1,000,000 which is to be liquidated in near future. Mean while, prices of the scrips may go down, which will result in certain disadvantages to Mr. X and he wishes to avoid it and the current SENSEX is 2000. To protect the portfolio's value, toda y, Mr. X can sell 20 index futures of equivalent amount (say, at a price of 2000 each and contract multiplier is Rs.25). Thus, he has committed himself to the notional sale of Rs. 1,000,000 (20 * 2000 * Rs. 25) of stock on the June delivery date at the level of equity prices implied by the futures price on 5 April. On 10th May, 2010 the portfolio holder feels that the fall in equity prices is complete and SENSEX has fallen to 1900. Correspondingly, the value of the portfolio has declined to Rs. 9,50,000. Thus, loss on the portfolio is Rs. 50,000. Mr. X closes out the futures position by buying 20 June index futures at a price of Rs. 1900. The notional buying price of each contract is thus 100 below the notional selling price. Accordingly, gain from futures trading is Rs. 50,000 (20 * 100 * 25). If SENSEX had risen, there would have been a cash market gain offset by a futures market loss.

Long Hedge

Hedge that involves taking a long position in the future contract is known as long hedge. In a long hedge, hedgers hedge their position in cash market by going long in futures market i.e., he buys futures contracts when he or she is either currently short in the spot market or is obliged to buy the good at the spot price prevailing at a future date. The long hedger faces the risk that prices may rise. If a price rise does take place, the long hedger would incur a loss in the spot market but would realize gains on the long future position.

Illustration

Suppose, 10th November, 2011 a Mr. Y anticipates getting Rs. 1 million and intends to use it to buy a balanced portfolio of equities. He fears that one month later, stock prices will rise before the money is received. Current SENSEX is 2200 and contract multiplier is Rs.25. He buys 18 February futures contracts at a price of Rs.2200. He thereby notionally commits himself to paying Rs. 9, 90,000 (18 * 2200 * Rs. 25). On 10th December, the new SENSEX is 2300 (say). He requires an additional Rs. 45,000 (18 * 100 * Rs. 25) in order to buy the stock that would have been bought on 10th November at a price of Rs. 1 million. Thus, the loss will be Rs. 45,000 in spot market. Accordingly, he closes out by selling at a price of Rs. 2300. He notionally gets a receipt of Rs. 10, 35,000 (18 * 2300 * Rs 25) upon the maturity of the contract and the profit from futures contract will be Rs. 45,000 (= 10,35,000 - 9,90,000)

Cross Hedge

Cross hedge is the hedge in which the asset whose price is to be hedged may not exactly match with the asset underlying the futures contract. In other words, a cross hedge is one in which the cash asset and the asset underlying the futures contract are not identical. This situation arises when the hedge uses a futures contract with an underlying asset different from the one he is currently on (i.e. long or short).

Illustration

An airline is concerned about the future price of jet fuel. Because there is no futures contract on jet fuel in the international market, it might choose futures contracts on the other energy products such as crude oil, gasoline etc. to hedge its exposure. As the prices of these commodities are closely associated with that of the jet fuel, market participants take positions in futures contracts on crude oil, gasoline etc. to hedge the price risk of jet fuel. This is an example of cross hedge.

Hedge Ratio

The hedge ratio is the ratio of the size of the position taken in futures contracts to the size of the exposure. The hedger should choose a value for the hedge ratio that minimizes the variances of the value of the hedged position [*Hull* (2009)]. To hedge completely against the systematic risk with the help of futures contracts, the following formula is used:

$$\frac{\alpha \text{ of the stock portfolio} * (\text{Value of the portfolio})}{(\text{Value of a futures contract})}$$

Illustration

Suppose Mr. Z has a portfolio of Rs. 8,00,000 with a portfolio beta of 1.2 and expects the market to go down in next one month. A One month index future on Nifty is trading at 6000 and the contract multiplier is 20. In this situation Mr. Z has two options: (i) He can go to the spot market and sell his portfolio to buy the same again after a fall in prices (ii) He can use index futures to protect the value of his portfolio from the expected fall. Let us consider, Mr. Z chooses the second option to hedge his downside risk. To hedge the systematic risk of Mr. Z's portfolio, he has to sell index futures. Now, if the market goes down as expected by him, he would lose in the cash market but gain in the futures market. Accordingly, whatever losses he realizes in cash market transactions resulting from the downward movement of the market, get compensated fully or partly by the profits on his future positions. Thus, hedge ratio is (8,00,000 * 1.2) / (6000*20) = 8 contracts. It means that Mr. Z has to sell 8 contracts in futures market to hedge his position in the cash market against the market risk completely.

Conclusion

In the context of enterprise risk management, futures contracts are one of the important ways of hedging as they enable market participants to alter the risks they face from unexpected, adverse price changes. With the help of various types of hedging, one can take positions in the futures market that neutralizes the risk as far as possible.

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ENTERPRISE RISK MANAGEMENT IN THE FAST MOVING CONSUMER GOODS (FMCG) SECTOR IN INDIA

Like the other sectors, the FMCG sector is also subject to various business risks: intensity of competion, unpredictability of monsoons, rapidly shifting consumer tastes and preferences as well as the volatility in commodity prices

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Kolkata

Risk is integral to every business activity, for it is associated with the innate uncertainty of its outcome. However the perception of risk is highly subjective – while the same threat may lead the CFO of X Ltd. to break into cold sweat, his/her counterpart at Y Ltd. may simply shrug it off! Therefore perception of risk is clearly dependant on the risk appetite of the entity. At its simplest risk appetite is the amount of risk that an entity is willing to take on, in its pursuit of value. Varying circumstances, sizes, scale, nature, strengths, complexities and weaknesses lead to differences in risk appetites of different entities belonging to different industries or even in the same industry. Hence, the evaluation of risks looming over an entity need to be assessed in consonance to its specific vulnerability(s).Enterprise Risk Management (ERM) has a decisive role to play here.

Objective

Here in this article, a humble attempt has been made to explore the facets of ERM – its application and disclosure issues with special reference to the Fast Moving Consumer Goods (FMCG) sector in India.

Methodolgy

As mentioned, this article is exploratory in nature. Information for this article has been gathered from the secondary sources. The three selected companies for this article are leading FMCG majors in the country with consistently stellar performance, over the years. They are Hindustan Unilever Limited (HUL), Nestlé India Limited (NIL) and Dabur India Limited (DIL). HUL is India's largest FMCG company with a heritage of about 80 years in India and touches the lives of two out of three Indians. NIL is a subsidiary of Nestlé S.A. of Switzerland – the world's leading Nutrition, Health and Wellness company. DIL is a leading India-born FMCG company. In developing this article, pertinent information has been collected from their Annual Reports.

Enterprise Risk Management (ERM)

The Committee of Sponsoring Organisations of the Treadway Commission (COSO) has defined ERM as "a process effected by an entity's Board of Directors, management and other personnel applied in a strategy setting and across the enterprise, designed to identify po-

tential events that may affect the entity and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

Taking risk is imperative to the attainment of organizational objectives which at its core resonates with the firm belief of augmenting stakeholder wealth. But the 'downside of risk' succeeds in bringing about quite the opposite – erosion of stakeholder wealth. So when the purpose of doing business is beaten by the process of doing it, the entire exercise becomes futile. It is basically for this reason that ERM has evolved as a critical part in the strategic management process of an entity. It is a continuous process by which the organization methodically examines the positive and negative impact of every issue both internal and external, that affects it, and follows it by instituting processes to manage them. This naturally increases the probability of success and diminishes the probability of failure – eliminating to a large extent the element of uncertainty and resulting in better preparedness. Naturally to be effective, it has to be far from being a sporadic attempt, rather ingrained into routine activities dynamic enough to be responsive to even minutest shifts in the circumstances.

Risk and their mitigation: The birth of opportunities

The relevant risks for an organization emanate from various sources and affect different aspects of the organization. The volume and consequently the value or vice-versa may be adversely affected by shifting market opportunities, competitive position, government policy, buyer behaviour, bargaining power, relationship with channel partners, new entrants – so on and so forth. Identification of the risks

THESE FMCG COMPANIES, LIKE MOST OTHERS IN THE INDUSTRY, ARE NIMBLE-FOOTED TO PICK UP CUES RELATING TO THE CHANGING TASTES AND PREFERENCES OF CONSUMERS

particular to an organization necessitates a thorough grasp of its goals, objectives and workings as also a comprehensive idea about the political, legal, social, cultural and market conditions it operates in. After recognition and analysis of the concerned risks their impact and likelihood are assessed before working out a suitable response strategy. The response strategy under ERM culminates as avoidance, reduction, alternative actions, share/insure or even accept. This entire mechanism is in consonance with the COSO ERM Framework.

The success of ERM is manifest in the reduction in the probability or impact of the threat concerned. In the process of negotiating such threats/risks, organizations are also rewarded opportunities to accelerate their future growth.

ERM: still a major compliance issue

Inspite of the criticality of ERM in the entire strategic management process, which became even more apparent in the aftermath of the global financial crisis in 2008, it remains a compliance issue for most of the companies in our country. Risk management issues of companies in most of the cases appear at best as caveat in their Annual Reports.

However, Clause 49 of the Listing Agreement as revised by SEBI in 2004 mandated that listed entities must clearly reveal their risk assessment and mitigation plans periodically. Here, International Risk Management Standards like ISO 31000:2009 and ISO/IEC 31010:2009 are noteworthy. The ISO 31000:2009 (Risk management – Principles and Guidelines) which provides principles, framework and processes for managing risk can be used by any organization regardless of its size, activity or sector. ISO/IEC 31010:2009 (Risk Management – Risk Assessment Techniques) focuses on risk assessment.

ERM at selected FMCG majors

In order to highlight the risk assessment and risk mitigation efforts of the companies in India, the author in this article has briefly focused on the FMCG sector. FMCGs characterise frequently purchased and low-involvement items that seek to satisfy a fundamental need of the consumer. Like the other sectors, the FMCG sector is also subject to various business risks. Competitive intensity, unpredictability of monsoons, rapidly shifting consumer tastes and preferences as well as the volatility in commodity prices – principally petroleum crude, vegetable fats, chemicals and packaging materials particularly affects this sector. A close scrutiny of the Annual Reports of three leading FMCG majors in the country, viz., HUL, NIL and DIL reveals their risk management efforts and how in the process they have leveraged opportunities to open for themselves vistas for growth. Some insights:

- The companies have robust systems for internal audit and corporate risk assessment and mitigation.
- Their business risk assessment procedures have been instituted for self-assessment of business risks, operating controls and in compliance with their corporate policies. The processes to track the evolution of the risks and delivery of mitigation plans are incessant.
- Their debt equity ratio are modest, with adequate covers on foreign exchange transactions For them materially significant uncovered exchange rate risks in the context of imports and exports are usually nil.
- Steep increases in input prices have often been handled by these corporates through use of alternative materials vis-à-vis value-engineering, tight control of indirect costs, forward contracts, generation of further buying cost advantages in

the course of strategic alliances with many international and local vendors (for key raw and packing materials) and so on.

- The companies have focused on being 'Injury Free' and 'Zero Environment Incident' organizations. Their safety and environmental standards are aligned to international standards of ISO 14001/OHSAS 18001. Their environmental agenda centers on reducing the environmental impact of their operations.
- In collaboration with leading safety consultants DuPont, NIL adopted a safety engagement programme – "Safe by Choice" to develop and nurture high safety standards at various locations of the Company.
- In November 2010, HUL's parent Unilever launched the Sustainable Living Plan, where Unilever's vision is to double the size of its business while reducing the overall impact on environment. HUL's operations at every unit endorse this mighty ambition. By the end of 2011, almost two-thirds of the palm oil used in the products globally was procured from sustainable sources. In India, 60% of tomatoes used by HUL are sourced sustainably.
- In 2010, NIL had rolled out Responsible Sourcing Programme, to select vendors under Nestlé Environment Management System.
- DIL's portfolio of Ayurvedic and nature-based products makes it imperative for the Company to zealously pursue the conservation of nature and sustainability agenda. DIL, as part of its risk mitigation and strategic management process, has been setting up greenhouses to grow rare herbs and medicinal plants, besides working with farmers to cultivate such herbs.
- FMCG business being high volume and low margin by nature and seeks to cater to every individual across geographies, is highly susceptible to the threat of counterfeits and look-alikes, especially in low literacy zones. These fraudulent products, through their poor and often harmful properties, have the potential of 'putting off' customers from the original brand altogether –eliminating any chances of future trial.

  To fight the menace of counterfeits, HUL often carries out consumer awareness drives. Notable among them is the setting up of stalls at strategic locations with heaps of counterfeit products, to help consumers identify fake products and realize their health-hazards. Earlier, handbills to educate consumers about the evils of counterfeit had also been distributed by HUL with the support of Bombay Chamber of Commerce. Raids have been conducted in factories and bottling units in the past where large scale duplications were discovered.

  DIL is a member of the FICCI CASCADE Committee, which strives to create awareness on the menace of smuggled goods and counterfeit products
- These FMCG companies, like most others in the industry, are nimble-footed to pick up cues relating to the changing tastes and preferences of consumers not only to drive consumer-centricity but also to mitigate the risk of product obsolescence. From taking to the streets to relying on the latest technological tools, the means to understand consumer preferences are diverse and innovative.

Conclusive remarks

In the world where 'uncertainty' has emerged as the only certain event, where 'Drop' and 'Tumble' seems to have taken the shine off from Humpty-Dumpty and Jack, incidence of risk is neither one-off nor is it limited to the horizon of doomsday prophets. Hence identification and mitigation of risks have been bestowed the critical position it richly deserves in the strategic management process of business entities, big and small. It is the disclosure part which preferably should climb up from the threshold of mere compliance. If ERM is essentially about meeting organizational objectives and protecting stakeholder wealth then there cannot be two ways about this, especially in these tumultuous times.

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ENTERPRISE RISK MANAGEMENT IN THE TELECOM BUSINESS

Since the telecom industry is characterized by frequent tech changes, fast-changing customer expectations and competition from well established brands, it is very important and fundamental to address these strategic risks

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Risk is omnipresent. Individuals as well as organizations are susceptible to various risks in their life cycle. Like every cloud has a silver lining every risk has a potential of growth in return. But, this does not happen automatically and depends on how well the risks are managed. So Enterprise Risk Management (ERM) has become a part of normal business practice and not a separate task at set times. In this article, we shall discuss the risks faced by enterprises in Telecom Industry and a check list for managing those risks.

Risks encountered by enterprises in the telecom business

The risks faced by enterprises operating in telecom industry can be broadly grouped under the following categories

1. Strategic-related to vision, mission and goals often influenced by customers, competitors and investors
2. Operational-pertaining to effective and efficient use of resources
3. Financial-arising out of market conditions and economic scenario
4. Compliance-impact of political, regulatory practices and corporate governance norms

Strategic risks

The telecom industry is characterized by frequent technological changes, fast-changing customers' expectations and competition from already well established brands pre-empting entry of new players. Therefore, it is very important and fundamental to address these strategic risks. The following check list may help in this direction.

Technology

(1) Assess the life cycle of technology keeping in mind global scenario as well as domestic experience.
(2) Improvement in network quality as operators cannot ever be complacent in this regard.
(3) Penetration levels. The time taken to reach 50% penetration is coming down from 15 years for mobile phones to 4-5 years for smart phones and tablets.
(4) Sensitive to new forms of connectivity. While operators continue to think connectivity in terms of humans, there is going to be a paradigm shift to machine-based connectivity.
(5) Stress on core competencies. This will decide on building internal capabilities or the need for outsourcing.
(6) Avoid dual technology deployment for the same line of business service utility on the same target segment and geographical spread.

Customer expectations

(1) Capture requirements of customers based on geographical location (rural or urban), age-profile (youth, middle-aged & senior citizens) and category (individuals or enterprise customers).
(2) Adequate communication to customers about the new services and value offered.
(3) Proper dissemination of tariff information to customers. A recent survey by Ernst & Young points out that only 56% of global mobile users understand the mobile data plans.

(4) Trends in migration to new plans need to be closely monitored to understand the popularity or otherwise of the plans among customers.
(5) Timely redressal of grievances goes a long way in retention of customers.
(6) Leveraging business analytics to extrapolate into future customer expectations and behaviours.

Competitors
(1) Technological innovation, service differentiation and value addition are the key areas which help to remain competitive in telecom business.
(2) A remarkable swiftness in marketing new services is the need of the hour. That is, the time to market should be kept minimum.
(3) While existing players need to capitalize on their brand value, tyros have a compulsion to build brand image. This is because, technological brands occupy top 4 slots in customers' minds.
(4) Patenting of technical know-how.

Operational risks
It is not the availability of weapon that matters, what really counts is the ability to use it. An enterprise has various types of resources which include property, plant and equipment, intangible assets and human resources. A telecom enterprise also has similar resources and its growth depends heavily on its proper utilization. Likewise, the operational procedures adopted by it also bring various risks. To come out of those risks unscathed, the measures enumerated below will be helpful.
(1) Property of telecom business usually comprises land and buildings, exchange equipment, cables, subscribers' installations, towers, etc.,. Around 50% of property is in cables. All these assets are to be adequately secured and properly maintained in order to provide seamless service to customers.
(2) Though telecom business is capital intensive, importance of human resources cannot be undermined. With stiff competition among operators, demand for qualified and trained personnel is always on the rise. To minimize attrition rate, effective HR policies must be framed and implemented.
(3) Usually, tendering process is adopted to procure equipments and spare parts. There is a likelihood of various litigations which may result in stalling the procurement process and thereby obstructing the expansion plans. To safeguard against this, tender documents must be prepared carefully by taking legal advice wherever required. Also, tender process should be transparent.
(4) IT related resources such as Operational, Billing and Customer Care Systems are prone to hacking, spoofing and other cyber crimes. To safeguard against this risk, effective IT security policy is to be followed in all Data Centres. Also, proper back up arrangements as well as disaster recovery mechanism are to be put in place.
(5) New service models call for change in business models. Mergers & Acquisitions route provides a viable solution in this regard. However, this

route should be taken after thoroughly analyzing core competencies and partnering needs.

Financial risks

What oxygen is to human system, finance is to an enterprise. Investments in telecom ventures have longer pay back periods and hence only seasoned players bet on this. But, this need not discourage new entrants. Both veterans and debutants need to have a robust risk management policy to take care of financial uncertainties. The following are the ingredients of such policy.

(1) Investments in new technologies must be consistent with vision and mission of an enterprise. Also, they have to pass the test of techno-commercial viability. Employing discounted pay back techniques to appraise projects is highly advisable.

(2) In the present scenario, firms are reluctant to invest in new services because of uncertainties about return on investment. Instead they can think of network sharing and vendor financing model.

(3) Business metrics such as Average Revenue Per User(ARPU), minutes of use and EBITDA which are widely in use, need to be refined so that network coverage and customer experience can also be assessed and communicated to both internal and external stakeholders. Also, Cash Return on Invested Capital (CROIC) can help measure the true return.

(4) There is a necessity to ensure that all the services offered to customers are captured and billed correctly so that revenue leakage can be avoided.

(5) Adequate collection channels to be offered to customers to pay their bills without difficulty. Discounts in the form of free usage can be given to customers who are prompt in paying their dues.

(6) Collection efficiency is to be monitored regularly so that liquidity can be maintained. Also, this will guard against bad debts. Even a small percentage of bad debts run into hundreds of thousands of crores of rupees.

(7) Similarly timely settlement of dues to suppliers and contractors is equally important because this will have direct impact on business operations.

(8) Periodical audit of billing and payment management systems is to be undertaken to plug loopholes, if any.

Compliance risks

Since Telecom business is subject to strict licensing conditions, regulatory norms, tax, economic and labour enactments, concomitant compliance risks are inevitable. The costs of non-compliance range from huge penalties to cancellation of licenses. Hence, adequate policy to deal with this risk will save the business from unnecessary penal actions. The items listed below may be taken into account in framing such policy.

(1) Quality of Service benchmarks prescribed by the Telecom Regulatory Authority of India are to be attained by fine tuning the participating departments of an enterprise.

(2) Proper care should be taken while providing data to regulatory authorities since any mistake in this will snowball into unnecessary penalties.

(3) Procedure for calculating license fees is to be thorough in all respects. For this, proper classification of revenue into voice and data is necessary.

(4) Service tax and TDS payments are to be deposited with Government within due dates. Proper care is necessary while taking Cenvat Credit.

(5) If contract labour is engaged, timely disbursal of wages and deposit of EPF, ESI, etc., are to be ensured. Otherwise, firms will be liable as principal employers.

(6) A dedicated wing is very essential to guide the firm towards better compliance.

Conclusion

It is uncertainty of tomorrow which makes our life more interesting. However, the acts of today have definitely a bearing on tomorrow. This equally applies to businesses also. While we cannot completely insulate our enterprises from effects of risks, we can mitigate them. ERM is certainly a step towards that end. However, ERM policy needs to be reviewed according to changing business scenarios and customer expectations. This should never be allowed to remain a static document.

While we cannot completely insulate our enterprises from effects of risks, we can mitigate them, and ERM is certainly a step towards that end

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ENTERPRISE RISK MANAGEMENT IN BANKS: CHALLENGES AS OPPORTUNITIES

Banking functions today can be more appropriately termed as ERM, because banks deal with diverse risks such as credit, liquidity, strategic, reputation, market, operational and compliance risks

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Enterprise Risk Management can be defined as the "capability of an organization to understand, control and articulate the nature and the level of various risks, taken in pursuit of a risk adjusted return." It is an on-going process applied across an enterprise at every level and unit designed to identify potential events that (if they occur) will

ENTERPRISE RISK MANAGEMENT (ERM) IN BANKS SHOULD WORK IN TANDEM WITH GROWTH STRATEGIES. GROWTH AND ERM ARE THE TWO EYES OF BANKS

affect the enterprise and to manage risks within its risk appetite.

ERM and banks

The conventional definition of banking as "the acceptance of deposits from the public for the purpose of investment or lending" no longer draws the correct picture of today's complex banking. Banking functions today can be more appropriately termed as Enterprise Risk Management. Banks deal with diverse risks such as credit, liquidity, strategic, reputation, market, operational and compliance risks.The banking sector, especially in India, has been witnessing turbulent times and passing through an exciting phase. Business models have changed, complex products have arrived, pressure on profit margins has set in and compliance has become a major issue. Risks and Return, as the saying goes, go together and therefore, banks need to take risks. What they need to do essentially is to identify the risks, measure the risks, monitor the risks and mitigate the risks. In this context and background, let us discuss the major risk-related issues that have implications for Indian banks.

Credit risk and the mounting non-performing assets

Across the banks, there has been a steep increase in Non- performing assets. Non-performing assets affect banks in two ways- the assets do not generate any income; banks have also to maintain provision for their non-performing assets ranging from 15% for sub-standard assets to 100% in the case of loss assets. Identification of the borrowers, professional approach in credit appraisal, proper credit investigation, due diligence, continuous monitoring of the accounts-all these will help in preventing accounts slipping into NPA. Banks need to implement an Enterprise-wide credit risk management policy and to sensitize the field functionaries about the various precautions that they have to take in credit dispensation.

Bank branches have a critical role in the entire credit dispensation process and they can contribute to Credit risk management.

It is true that the Top Management of a bank releases the Loan Policy and related documents for the guidance of branches, studying the credit risks associated with various segments of borrowers. However, it is only at the branches where credit proposals originate. Credit dispensation process starts with the recommendations of the Branch. Therefore, banks must sensitize their branch-staff, especially the Branch Heads, who are involved in sanctioning or recommending sanction of loans.

Under Basel II and Basel III, capital planning and capital conservation are the major issues. Branch Heads and credit departments at branches should improve the quality of their asset-portfolio. For example, when branches do the rating of their loan accounts, they should endeavour to give the correct picture about the status of the borrowers to the sanctioning authorities.

Regulatory retail portfolio attracts minimum capital requirements and branches can give more retail credits. It is the experience of banks that high value advances have associated risks, which may affect the profitability of banks; comparatively, small value advances are safer as the risk is spread.

Branches may give loans under Government sponsored schemes, since they get the help of nodal agencies in all stages of loan dispensation – identification of borrowers, documentation, end-use verification, monitoring, follow-up and recovery.

Pre and post sanction inspections, due diligence and on-site and off-site follow up of the accounts go a long way in preventing credit risks Branch Heads and staff can carry-out these tasks to retain good quality assets at their branches.

Mortgage-related frauds take place in the banking industry these days; by following the guidelines issued through periodical circulars by Central office, branches can prevent such frauds.

In the case of loans covered under Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), capital need not be provided on the insured amount of the loans. It makes sense to give micro and small credits and cover them under CGTMSE's sovereign guarantee, rather than take collateral security of properties, which is vulnerable to fraud. It is also not easy to sell immovable properties.

Similarly, NPA recovery is vital for profitability of banks and effective recovery methods through Lok Adalat, Debts Recovery Tribunal (DRT) and SARFAESI must be resorted to. A large number of NPA borrowers are willful defaulters. Unless banks take appropriate recovery methods, NPAs will become unmanageable and may pose as a big risk.

Operational risks and management

Banks in India are witnessing the twin challenges of large scale retirements on superannuation on the one hand and large-sale recruitment of young, educated but inexperienced officers and staff, on the other hand. This has resulted in perceptible generation-gap and business continuity and succession plan issues. Besides, banks are opening a large number of branches across the nation, including rural, urban and metropolitan areas and these young officers are posted as Heads of such branches. With little or no previous banking experience, these promising officers are handling all banking transactions, including opening of accounts, accepting of deposits, dispensing loans, taking documents, monitoring the accounts and recovering the dues. Such an environment is vulnerable for possible operational risks. Banks need to formulate appropriate HR policies and business continuity policies so that operational risks that may happen in such a situation.

As in the case of credit risk management, operational risks are also triggered at field-level. Therefore, the Enterprise Risk Management policy should focus on branch operations. We can highlight specific issues.

If branches follow KYC/AML/CFT guidelines scrupulously, frauds/money laundering can be effectively checked. In recent times, many banks had to pay heavy penalty for violation of KYC/AML guidelines of the regulators.

A significant number of frauds happen when employees do not give sanctity to passwords. In addition to giving scope for fraudulent transactions, such a habit of sharing passwords causes personal problems to those who do so.

The scanning of customers' signatures ensures that the customers' cheques are not returned in Centralized Clearing environment, leading to Reputation risk.

The issuance of cheque books with due care prevents the cheques from landing in the wrong hands.

Handling of cash with due diligence goes a long way in ensuring its safety

Verifying computer-generated statements helps detect unusual transactions early.

Raising Suspicious Transactions Reports (STRs) to higher authorities results in tracing fraudsters/money-launderers quickly.

Dacoits, before they strike at a bank branch, make reconnaissance attempts to see whether the branch is vulnerable. They watch the movements of the staff members and observe even their conversation. When staff members have a professional attitude to their work and ensure that those who are in the customer-hall have come for some bona-fide purpose and take steps in disposing them quickly, risks can be mitigated.

Risk Management of Information Systems is a challenge. All Staff members have roles to play. The electrical and electronic equipments should be kept neat and protected. The staff should know the escalation-points in case of any break-down. They have a major role in enabling Business-continuity and Disaster-recovery. Being at the customer-interface point, they can ensure that minimum service is provided to the customers during server-down periods, so that there is no panic or confusion.

Strategic risks

Strategies taken at the Top Management level provide direction to the field functionaries. Wrong strategies can lead to strategic risk. In case a bank decides to accept high cost deposits as a strategic step, it may lead to liquidity risk or may lead to lowering of profit. Asset Liability Management is a very critical issue for banks. Similarly, if a bank focuses on aggressively increasing business volumes without concentrating on quality of assets, Non- performing assets may increase exponentially hitting the profits. Hence it is imperative that banks take appropriate strategies in tune with the risk appetite, prevailing business environment and regulatory requirements.

Enterprise-wide compliance risk management

Compliance means conforming to the rules and regulations of all regulatory authorities such as Ministry of Finance, Reserve bank of India, SEBI, IRDA, Companies Act, PMLA and of bank's internal guidelines. Compliance culture must penetrate through the entire-work force and should be enterprise-wide in true sense.

Conclusion

Enterprise Risk Management (ERM) in banks should work in tandem with growth strategies. Growth and ERM are the two eyes of banks. Successful ERM is possible, when the entire employees of the organization are proactive and are aware about the significant role that they have to play. When risks are managed well with the active co-operation of the work-force, banks can embark upon a high growth trajectory. The stakeholders' confidence in banking will also rise. MA

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ENTERPRISE RISK MANAGEMENT: SOME PROS AND CONS

As the complexities in the trade world have multiplied, so have the instruments to anticipate and to deal with them. Accuracy in estimation being impossible, the participants have shown resilience attempting not only to contain these wayward forces but also to profit by them by way of introducing instruments that have figured either as equal or near-equal to the eventualities

Some general issues

Enterprise risk management is a generic name given to the general uncertainties encountered in the process of commercial and other transactions both within the country and abroad. Risks besetting dealings and the final settlements sought to close deals as per agreements between parties imply uncertainties of outcome in the context of globalism that precludes diversities and seeks to bring the participants in a common frame of relationships. Risks and uncertainties create problems of accurately measuring the liabilities arising from commercial or any other type of relationship requiring settling of liabilities at a future date. It is relevant to remember at this stage that enterprises remain subject to many different types of risk and uncertainty caused by, for instance, political turmoil and natural calamities of different types. The stress here is on the umpteen financial risks against which both enterprises and individuals make organized attempts to protect themselves from loss, may be even partially. Since the future involves different depths and may imply movements up or down in the commercial-financial world, an accurate anticipation of outcome becomes virtually impossible and the risk of non-fulfilment of obligations looms large, driving participants to seek cover by way of entering into agreement so that, if risk cannot be avoided altogether, it can at least be reined in. An attempt on this line becomes more potent when change is considered to be the only constant in the world of commerce and finance.

Thus, as the complexities in the trade world have multiplied, so have the instruments to anticipate and to deal with them. Accuracy in estimation being an impossibility, the participants have shown resilience attempting not only to contain these wayward forces but also to profit by them by way of introducing instruments that have figured either as equal or near-equal to the eventualities. At least the brighter side of the play of these risk reducing instruments prompted SEBI to introduce them in this country since mid-2000. Even now, the introduction may be called half-fledged, rather than full-fledged! The areas of effectiveness of these instruments in dealing with a number of practical problems experienced in different countries and situations are stated hereunder in a summarized form.

Areas of effectiveness

1. Protecting against possible currency devaluation;
2. Protection from a potential increase in the value of a currency, for instance the rupee as against the dollar;
3. Safeguarding a stock market portfolio from downturn in the stock market;
4. Taking a view on the upswing of a stock index;
5. Protecting an interest rate exposure for a certain number of years at a fixed insurance rate;
6. Choosing a foreign exchange rate to use when submitting a foreign currency tender;
7. Enhancement of the yield of a non-performing investment;
8. Offering a fixed rate mortgage product;

9. Insuring against upward movement in interest rates;
10. Fixing an investment rate when the investment does not start until a future date;
11. Speculating as a private client on the foreign exchanges with minimum risk; and
12. Profiting from the movements in the prices of underlying assets.

The aforestated list is not exhaustive and many more items can be listed depending on the adaptability of the instruments for dealing with particular situations. It may be pertinent to point out that loss-minimization approaches are relevant in the cases of all derivatives, futures, options and swaps instruments. Profit is avowedly not the main objective in such deals and does not always remain in focus. The undercurrent unfortunately may be the contrary, in view of the basic fact that verily the systems of enterprise risk management do have streaks of profit for one party or another. It is of course the point of view of the enterprise going for risk management that most of the discussions on the issue refer. Many a time, all these attempts boil down to risk transfer, risk aversion or risk sharing in what is called two person, zero sum game. However, despite the rather bumpy road to traverse, the risk management techniques and processes have gained momentum over time, as would be evident from way they have taken off in several countries of the north and south. The risk managers of enterprises and their counterparties, brokers, either individuals or organizations, have remained busy seeking to outwit one another, all the time. The entire picture offers a learning experience from the points of view of both individuals and institutions.

The complex world of derivatives

The derivatives family has witnessed a rapid expansion with respect to both number and varieties of nomenclatures as also the number of countries and markets where these are traded. The definitional issues concerning derivatives are quite as complex as they are specific to countries, on one hand, and within each country, to markets, on the other. A derivatives contract is defined as a financial contract that derives most of its value from some underlying asset price(s), reference rate(s) or index level(s). Futures, forwards, options and swaps constitute the common types of derivatives[1]. Within each of them there are several sub-categories which are marked by distinctive features in themselves, albeit in matters of detail. A reference is made to them in view of their relevance for deciphering how they operate in realizing the objectives of risk control. Interestingly, each of them, though distinct, can also be linked to one another as interwoven contracts, giving birth to other types of derivatives equally enforceable. It is thus interesting and instructive to trace and know their precise features clearly and properly interpret their purports and deviations in practice, noticed in the market place in different countries over time. Though swaps and futures comprise the bulk, based mainly on interest rates and forward contracts on currencies, and are the more prevalent types, a whole series of other derivatives has been in vogue which are based on a cross-parentage of underlying assets. For instance, a derivative itself may figure as an underlying for another derivative contract but the result of the contract would depend on the movements in the transactions and prices of the primary underlying. The bilateral negotiations between two specific counterparties and the resultant contracts may have different bases as much as they may be 'privately negotiated' as against those which are mainly negotiated in an apparently opaque, decentralized environment of phones, faxes and quotation screens, if not simply by words of mouth. The picture thus afforded is anything but simple and uniform. Countrywise, marketwise variations remain further admixed by variations in time as one sees them in perspective. The mutuality of interest and understanding between counterparties remains conditioned by the rules of trading determined by the organized financial exchanges, unlike the 'privately negotiated' contracts. The objectives behind entering into a derivatives contract and those of their realization have between them numerous factors that have not responded to the expectations, as a rule.

Risk and uncertainty

Risk and uncertainty[2] have marked themselves rather differently in the choice of different derivatives with particular reference to the outcome expected of them. The characteristics of each derivative have called for application of sophisticated techniques and procedures for goal satisfaction. This study thus seeks to highlight the essential features of the derivatives ad rem and the mission behind each so that the theory – the models, the assumptions and posits - as it has manifested and crystallized in different mar-

[1]James R. Barth, R. Dan Brumbaugh & Glenn Yago (Ed.), Restructuring Regulation and Financial Institutions, Kluwer Academic Publishers, Boston, 2001, p. 263

[2]Risk and uncertainly are frequently used terms in most futuristic exercises. These are defined as below: risk is uncertainty that matters as it affects people's welfare. Uncertainty exists whenever one does not know for sure what will occur in the future. Every risky situation is uncertain, but there can be uncertainty without risk. Cf. Zvi Bodie & Robert C. Merton, Finance, Prentice Hall, New Jersey, 2000, p.256.

THE DERIVATIVES FAMILY HAS WITNESSED A RAPID EXPANSION TO BOTH NUMBER AND VARIETIES OF NOMENCLATURES AND THE NUMBER OF COUNTRIES AND MARKETS WHERE THESE ARE TRADED

kets and countries, and practice with respect to both themes and variations in their applicational dimensions come in clearer light. The mission-values disconnect is sought to be underlined juxtaposing the missions with reference to each of the derivatives and the area(s) where the disconnect has taken place. The derivatives have the rather laudable objective of reducing the risk of loss arising from the changes in the prices of the underlying assets over a stated period of time. The derivatives contracts deal with futurity and therefore have to contend with risk and uncertainty depending on the externalities. Emphasis on reduction of risk in volatile market conditions does not imply profit. Whether in practice deviances are noticed and the measures to deal with them are responsive enough have called for sophisticated exercises. The adequacy, or otherwise, of the regulatory measures is closely examined with reference to the characteristic aspects of each derivative, the factual evidence culled from different sources and expert analyses reported in various journals and reports so that the related issues emerge in a clearer light.

Typicality of each derivative

All this is supported by the typicality of each derivative in its propositional aspects and practical ramification. The emphasis on cases and examples regarding each of the derivatives is desired to bring to the fore their innate strengths and weaknesses both of which have been quite a few, where it has in practice tended to be centrifugal and how different countries have sought to counter the errant practices by deliberately applying various centripetal forces in terms of legal, regulatory and various other institutional measures. The nature of these forces, centrifugal and centripetal, is examined taking into view different feasibility constraints. The measures taken – legal and regulatory – are also dealt with in detail, referring to how far they have been successful in reining in the unwanted consequences, effective absorption of shocks likely to occur and the adoption of various measures by those affected adversely. How all this happens as between counterparties and at which points the regulatory bodies consider it appropriate to intervene are dealt with on the basis of facts. Two weaknesses in the measures taken by the authorities-that-be are quite visible, namely that while the centrifugal features, spelling different weaknesses, are as a rule case-specific, the corrective measures are invariably of a general nature, creating a mismatch, apart from the time taken to act. The second weakness is that the systemic measures seem to chase miscreants, instead of foreclosing shenanigans. Instances with reference to both are cited for lending support to the contentions in the study. The second order institutions in the western countries are quite strong, albeit being yet unequal to the wiles of the players in the game; the less said about the practices in the developing countries, the better, especially because most of the risk management instruments and participants in the game are not quite conversant with the typicality of the requirements. Aggravation of the problem has been caused by globalization bringing to the fore many inherent weaknesses that the financial sector reform in the developing countries like India could not adequately address. It took a decade after globalization to witness the financial sector reforms that paved the way for derivatives instruments though rather hesitantly, albeit the fact that enterprise risk management has already reached a fairly high level of sophistication, albeit still at a nascent stage in India!

Options, their varieties and typicality

The most widely-used and talked-about financial instrument is the option. First coming into vogue in the early 1970s, their use became widespread only in the 1980s. The options allow the buyer to benefit from the market movements in one direction but not to lose from the movements in the other direction. Option writing has already become an art and the advantages are not generally expected to exceed a limit for either side depending on how the market behaves. De integro, the options are primarily distinguished in terms of the right to buy, without imposing an obligation, a given quantity of an underlying asset at a given price on or before a given date, which is called a call option, while the right to sell, *sans* obligation, a given quantity of an underlying asset at a given price on or before a given date, is termed a put option. The former option allows the holder to benefit from a rise in the market price of an underlying asset when it can be exercised and there ensues a cash settlement; if the market prices of the underlying asset fall sufficiently, the put buyer will sell the underlying to the put seller at an advantageous price or elect to settle in cash. The strike or exercise price is to be understood in terms of the options that the holders thereof can strike or exercise. The terms American or European options signify that the former can be exercised any time during the maturity period while the latter cannot be exercised prior to maturity, though it can be traded. The asymmetry of the option contracts means that the buyer of an option must pay the seller in order to acquire the rights granted under the option. The sum paid is called the premium which has two components, namely, the intrinsic value and the extrinsic or time value. On a worldwide scale, option writing has already become an art and the advantages are not generally expected to exceed a limit for either side depending on how the market behaves. It is necessary to mention in passing that two typical features mark the intrinsic value of options; first, it is not essential to know about the auction premium for determining the option's intrinsic value, but one must know the strike price, the underlying price and whether the option is a call or put. In most cases, the option seller will demand a premium over and above the intrinsic value, since in conditions of asymmetry of the option seller has more to lose than to gain. The excess is called the extrinsic or time value because the time to maturity is a major factor determining the size of the time value. When the strike price and the underlying price are the same, the entire premium comprises time value alone.

Option varieties

Call and put options, their typicality and discussions thereon have occupied the major part of reference and discussion on options that somehow underestimate the existence and use of several other varieties of options. A few of these options and their purport deserve some comments. The following list presents a bird's eye-view of these options and their features. These are mainly illustrative but they do point out that their effectiveness in practice have actually brought them into vogue. While the Black and Scholes model of option pricing has fired the imagination of option traders on a worldwide scale, the situation before the 1970s was quite different, though derivatives were still in use in countries of the north from the days of yore. The options other than call and put are also relevant for use in specific circumstances. The CMAs may find them interesting and relevant in view of their typicality. These are stated hereunder:

i) Contingent options – where the premium is not payable unless the option is exercised;
ii) Delayed option - one which confers the right for the holder to receive at some future time another option with the strike price set equal to the underlying price on that date much alike a compound option with a zero strike price;
iii) Chooser option – it allows the holder to choose on some future date whether the option is put or call;
iv) Asian option - it implies that instead of using the underlying price solely on the expiry date, the average of the underlying asset prices over a period of time is used;
v) Average strike option – it is similar to the average rate option in that the underlying price over a period of time is averaged, but the strike price in this case is set to the average price; the payout in this case is the difference between the strike and the asset price on the maturity date;
vi) Look-back option – it is similar to the average strike option in that the strike price for a look-back is also set when the option expires but the holder of a look-back option can look back and choose the best price achieved during the lifetime of the option though for a look-back call, the strike price would be the minimum price seen during the option's life but for a look-back put the maximum price is used;
vii) Cliquet or ratchet option – under this option, developed in France, the strike price is set initially but is then reset to match the prevailing asset price on a set of predetermined dates – whenever the strike price is reset, any intrinsic value is locked in;
viii) Ladder option – under this the strike price is reset when the underlying asset price reaches the next step in a set of predetermined levels, no matter when this occurs;
ix) Shout option – under this, the point at which the strike price is reset is not determined in advance but is at the discretion of the buyer, who can 'shout' whenever he believes it to be most advantageous;
x) Barrier or Knock-out or Kick-in option - this option refers to two price levels established at the outset; one is the normal price but the other is a specified barrier or trigger level and depending on the type of the option, when the asset price touches the barrier level the buyer or seller of the option, when the asset price touches the barrier level the buyer or seller of the option initiates action like, for example, an 'out' option starts out like an ordinary option but is extinguished if the barrier level is breached and an 'in' option is activated if an when the barrier is touched;
xi) Rainbow or Out-performance option - it implies that the pay-

off from a call is determined by the highest price achieved by two or more underlying assets but that from a rainbow put is calculated from the worst performer;

xii) Basket option - a variation of the rain bow option, the pay-off is the weighted average of the prices within the basket of the underlying assets;

xiii) Spread option – under this type of option, the pay-off is the difference between a pair of asset prices, for instance, an option could pay the difference between Sterling and Euro or Deutschmark.

N.B. Some details are stated above regarding the options. Similar details could also be mentioned about several other instruments categories to underline that each member of the derivatives family has had several numbers seeking to combat the unknown happenings in the business world. All of them are not dealt with here though the scribe has done some detailed work on the subject.

Mischief mongers to spoil the broth

The business world in general has behaved like the autumn clouds. To attempt to bring all the variables to book and to turn the 'unfavourables' into 'favourables' has called upon the best of human ingenuity. In the age-long display of this, many elements have surfaced in different countries that have practically turned the tables on those who have displayed many innovative alternatives to the usual modes of work with different instruments to fathom what lies ahead and where deterministic approaches do not work. One has to go for the stochastic distribution to get nearer the reality in the future, at least to the extent possible. In this process, numerous mischief mongers have also surfaced in different countries of the north and south causing huge damage to the coffers of the institutions seeking to step into the future with a surer foot forward. The authorities in these countries have found their going tough by any count. The miscreants actually sought to work for their organizations in dealing with the risk reducing instruments but eventually they found themselves in the quagmire of greed and gambling instead of speculation. All this happened in different countries of Europe, Great Britain, U.S.A. and Japan. And this mishaps took place where the risk management instruments occupied the center-stage. New entrants into the scene, like India, stand the grave danger of misuse of the many risk management techniques and processes especially because the adequate surveillance mechanisms are yet not in place. CMAs are qualified to enter into the scene to keep the wayward forces under leash. Being at a nascent stage, the complications in this respect are not many but over time, several dangers lurking on the horizon may show up. The point sought to be made is that proper regulatory steps must be formulated and secondary institutions established to rein in the centrifugal issues. In the end it is necessary to underscore that centripetal forces must be organized to counter the centrifugal elements with which the risk management world is expected to co-exist. Strong legislative and operative measures are at work in the U.K., U.S.A. and other countries; similar steps must be taken in our country to counter the forces that attempts to deal with the uncertain future are likely to generate. MA

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A MALMQUIST APPROACH TO MEASURING TOTAL FACTOR PRODUCTIVITY EFFICIENCY OF SELECT PUBLIC AND PRIVATE SECTOR BANKS

The study has specifically tried to evaluate and compare the performance efficiency of an individual bank within each sector of banks and evaluate and compare the performance efficiency among the two sectors of banks

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Banks play a pivotal role in the process of financial intermediation by mobilizing the transfer of funds from surplus units to the deficit ones. As prime movers of economic life, banks occupy a significant place in the economy of every nation and it is therefore not surprising that their operations are perhaps the most heavily regulated and supervised of all businesses. Policy makers, economists and monetary authorities recognize that the ability of banks to achieve the desired results and to continue the role earmarked for them depends on the existence of an enabling environment and the number of operating banks and their performance from one financial year to another.

Over decades the commercial banks have played a vital role in giving direction to economic development process by catering the financial requirement of trade and industry in the country. Through their lending policies they divert the economic activity as per the needs of the country. With the nationalization of banks in the most of the major commercial banks in 1969, expansions of private and foreign banks were gradually increased. The Reserve Bank of India also began enforcing uniform interest rates, spreads and service changes among the nationalized banks and also allowed the emergence of private sector banks to operate simultaneously with the public sector banks to maintain a healthy competitive environ-

IN THIS STUDY TOP 20 BANKS HAVE BEEN SELECTED AND THE SELECTION HAS BEEN MADE ON THE BASIS OF THEIR TOTAL INCOME AND BALANCE SHEET SIZE

ment in the economy. The banking sector reforms have opened up the scope of development in banking operations with the noble mission to provide finance to priority sectors including the agricultural sector in rural India to help widen socio-economic development.

After banking sector reforms there are growing competitions in India between the public sector banks and the private banks. It has been observed that in many cases the public sector banks lag behind the private sector banks in terms of increase in profitability, decrease in non-performing assets, greater mobilization of fund and disbursement of finance in cities and towns disregarding rural hinterlands of the country. On the contrary, there are opinions that the public sector banks in general are more likely to look after the employees' welfare for increasing their job performance but all these led to a steady decline in the efficiency, quality of customer services and work culture in the banks. So measurement of banks' efficiency is very relevant in this transition.

Considering the change in the total factor productivity is one of the important methods of measuring the banks performance. The total factor productivity consists of all the factors partaking in the production process. In partial productivity measures the individual factors of production are considered separately, it might lead to misinformation over the total factor productivity. Hence, taking the total factor productivity into consideration and trying to measure the changes on its yield gives much more consistent result. Here the change in the total factor productivity is subdivided into two parts, namely change in technical efficiency and technological change. Improvements in these areas constitute the basis of reaching high economic performance levels and thereby it forms the basis of having very high level of competitiveness too. In this backdrop, an attempt has been made in this study to evaluate the relative performance efficiency of the selected public and private sector banks in India.

Review of literature

Many studies used DEA to measure the productive efficiency of Indian commercial banks as well as foreign banks. While some studies attribute the growth of productivity to technological progress (Avkiran, 2000; Alam, 2001; Mukherjee, Ray and Miller, 2001; Canhoto and Dermine, 2003; Sturm and Williams, 2004) others are in favour of efficiency improvement (Berg, Forsund and Jansen, 1992; Gilbert and Wilson, 1998; Isik and Hassan, 2003). Compare to efficiency analysis, the literature on the issue of TFP growth in Indian banking sector is very limited. Zhao, Casu and Ferrari (2008) used balanced panel data set covering the period 1992-2004 to measure DEA-based Malmquist index of TFP change in Indian banking sector. The results revealed that after an initial adjustment phase of deregulation period, the Indian banking sector experienced sustained productivity growth, the mainly by technological progress. Bank's ownership structure seems to have an impact on bank efficiency but does not appear to have an influence of TFP change. Kumar, Malathy and Ganesh (2010) observed that TFP growth for Indian banking sector for the period of 1995-2006 was driven mainly by technological progress as compared to efficiency change. Most of the previous in the Indian context decompose the Malmquist productivity index into its different components by using the extended decomposition model proposed by Färe et al. (1994). The extended model of Färe et al. (1994) assumes constant-return-to-scale

(CRS) at the stage of measuring technological change but subsequently switches to variable-return-to-scale (VRS) to separate the scale effect component, which is not internally consistent.

Objectives of the study

An attempt has been made in this study to evaluate the relative performance efficiency based on Malmquist total factor productivity (TFP) growth of the selected public and private sector banks in India. More specifically our study has tried to focus on two important aspects: (i) to evaluate and compare the performance efficiency of the individual banks within each sector of banks and (ii) to evaluate and compare the performance efficiency among the two sectors of banks as a whole i.e. sector wise performance evaluation and comparison.

Data and methodology

In this study top 20 banks have been selected and the selection has been made on the basis of their total income and balance sheet size. 10 banks have been taken from Public Sector Banks and 10 banks have been taken from Privet Sector Banks. The entire data sets for 11 years starting from 2001-02 to 2011-12 have been collected from the data base of Reserve Bank of India.

To evaluate the banks performance we have to measure technical efficiency change, technological change, pure technical efficiency change, scale efficiency change and total factor productivity change index of all selected commercial banks and groups. Malmquist total factor productivity index method is used to measure these indices. For our study the input vector includes interest cost, operating cost and total deposits; and output vector includes interest income and non-interest income.

Malmquist Total Factor Productivity (TFP) Index

Malmquist productivity index is defined using distant function. Suppose the function that describes the technology of production is given as:

$F(X_1 Y) = 0$ *where* $X = (X_1, X_2, \ldots\ldots\ldots X_M)$ is the input vector and $Y = (Y_1, Y_2, \ldots\ldots\ldots Y_S)$ is the output vector. Caves, Christensen and Diewert (1982) provided an alternative interpretation of production technology using the concept of 'distance function'. They define the output distance function as $D_0(X,Y) = Min_\mu[\mu: F(X, {}^{Y}/_{\mu}) = 0]$ where μ_Y is the minimum proportional change in the output vector. The output distance function measures the maximum proportional change in output required to place (X,Y) on the efficient frontier. If evaluated production unit is efficient, then

$$D_0(X,Y) = 1 \text{ otherwise, } D_0(X,Y) < 1.$$

$D_0^t(CRS)$ and $D_0^t(VRS)$ denotes the output distance function computed with period t technology and with CRS and VRS specification respectively. In this study Malmquist Total Factor Productivity (TFP) measures the productivity change of a specific value (increase/decrease rate) between two timeframe. Change indexes in total factor productivity for the banks are calculated separately for both banks and bank groups applying panel data for the period 2001-2002 to 2011-12. Our study is based upon output based Malmquist TFP approach. DEA Frontier Analyst software is used for the measurement of all indexes. Caves, Christensen and Diewert (1982) defines the output based Malmquist productivity index to compare performance of production unit in time period t and t+1 with reference to period t technology as:

$$M_0^t\left(X_{t+1}, Y_{t+1}, X_t, Y_t\right) = \frac{D_O^t(X_{t+1}, Y_{t+1})}{D_O^t(X_t, Y_t)} \quad (1)$$

Alternatively we may define output based Malmquist productivity index with reference to period t+1 technology as:

$$M_0^{t+1}\left(X_{t+1}, Y_{t+1}, X_t, Y_t\right) = \frac{D_O^{t+1}(X_{t+1}, Y_{t+1})}{D_O^{t+1}(X_t, Y_t)} \quad (2)$$

Fare et. al. (1994) defines an index that incorporates Malmquist indices in both periods. This they suggest to avoid choice of the time period arbitrarily. This TFP change index is the geometric mean of output based Malmquist productivity indices with reference to period t and period

$$M_0\left(X_{t+1}, Y_{t+1}, X_t, Y_t\right) = \left[\frac{D_O^t(X_{t+1}, Y_{t+1})}{D_O^t(X_t, Y_t)} \times \frac{D_O^{t+1}(X_{t+1}, Y_{t+1})}{D_O^{t+1}(X_t, Y_t)}\right]^{1/2} \quad (3)$$

$$= \left(\frac{D_O^{t+1}(X_{t+1}, Y_{t+1})}{D_O^t(X_t, Y_t)}\right) \times \left[\left(\frac{D_O^t(X_{t+1}, Y_{t+1})}{D_O^{t+1}(X_{t+1}, Y_{t+1})}\right) \times \left(\frac{D_O^t(X_t, Y_t)}{D_O^{t+1}(X_t, Y_t)}\right)\right]^{1/2} \quad (4)$$

t+1 technology and it is calculated as:

Where $\frac{D_O^{t+1}(X_{t+1}, Y_{t+1})}{D_O^t(X_t, Y_t)}$ he change in relative technical efficiency between t an $\left[\left(\frac{D_O^t(X_{t+1}, Y_{t+1})}{D_O^{t+1}(X_{t+1}, Y_{t+1})}\right) \times \left(\frac{D_O^t(X_t, Y_t)}{D_O^{t+1}(X_t, Y_t)}\right)\right]^{1/2}$ t+1 and]½ captures the shift in technology (technological change) between the two periods evaluated at (X_t, Y_t) and (X_{t+1}, Y_{t+1}).

Now, for each production unit, five Malmquist indices have been defined below for period t+1 relative to period t.

Total factor productivity change index (TFPCI)

$$= \left(\frac{D_O^{t+1}(CRS)(X_{t+1}, Y_{t+1})}{D_O^t(CRS)(X_t, Y_t)}\right) \times \left[\left(\frac{D_O^t(CRS)(X_{t+1}, Y_{t+1})}{D_O^{t+1}(CRS)(X_{t+1}, Y_{t+1})}\right) \times \left(\frac{D_O^t(CRS)(X_t, Y_t)}{D_O^{t+1}(CRS)(X_t, Y_t)}\right)\right]^{1/2} \quad (5)$$

Technological change index (TCI)

$$= \left[\left(\frac{D_O^t(CRS)(X_{t+1}, Y_{t+1})}{D_O^{t+1}(CRS)(X_{t+1}, Y_{t+1})}\right) \times \left(\frac{D_O^t(CRS)(X_t, Y_t)}{D_O^{t+1}(CRS)(X_t, Y_t)}\right)\right]^{1/2} \quad (6)$$

Technical efficiency change index (TECI)

$$= \left[\frac{D_o^{t+1}(\mathrm{CRS})(X_{t+1},Y_{t+1})}{D_o^{t}(\mathrm{CRS})(X_t,Y_t)}\right] \quad (7)$$

Pure technical efficiency change index (PTECI)

$$= \left[\frac{D_o^{t+1}(\mathrm{VRS})(X_{t+1},Y_{t+1})}{D_o^{t}(\mathrm{VRS})(X_t,Y_t)}\right] \quad (8)$$

Scale efficiency change index (SECI)

$$= \frac{\text{Technical Efficiency Change Index}}{\text{Pure Technical Efficiency Change Index}}$$

A value of less than 1 in the index indicates a decline in

$$\left[\frac{D_o^{t+1}(\mathrm{CRS})(X_{t+1},Y_{t+1})}{D_o^{t}(\mathrm{CRS})(X_t,Y_t)}\right] \div \left[\frac{D_o^{t+1}(\mathrm{VRS})(X_{t+1},Y_{t+1})}{D_o^{t}(\mathrm{VRS})(X_t,Y_t)}\right] \quad (9)$$

efficiency, equals to 1 indicates stagnation and greater than 1 indicates a growth between t and t+1 from the perspective of period t technology.

Analysis and findings of the study

The change in total factor productivity index enables us to identify whether the productivity changes due to technological change and/ or due to the technical efficiency change. Index value's being more than 1 indicates that it rises during the transition from (t) period to (t+1) period; on the other hand, being less than 1 indicates its decrease. The measurement of total factor productivity index is comprised of multiplication of change value in technical efficiency and technological change value. The constituents of total factor productivity: technical efficiency change and technological changes being more than 1 once again represents the improvement in technology and technical efficiency, and its being less than 1 implies the retrogression. In other words; technical efficiency change index's being more than 1 depicts the capability of the organization in satisfying the production limit; likewise, technological change index's being more than 1 shows that the organization is successful in hoisting its efficiency level.

Technologic change index's having a negative change value means that there has been a reduction in the output amount produced by the similar amount of input. Technical efficiency change is divided into two parts- pure technical efficiency change and scale efficiency change. Multiplication of these divisions renders in technical efficiency change index. Managerial competence in pure technical efficiency questions whether the organizations work with the suitable scale and show the achievement in producing within the appropriate scale. Decrease in pure technical efficiency signals the distortion in managerial competence. The observation of decay in scale efficiency is a glimpse of organizations scale problem.

Malmquist total factor productivity index's being divided into above mentioned constituents plays a fundamental role in the detection of main sources in the rise of total factor productivity. The change indexes of technical efficiency, technology, pure technical efficiency, scale efficiency and total factor productivity covering all selected commercial banks and groups are demonstrated in the tables below.

Analysis of Factor Productivity Efficiency of all the Select Commercial Banks Taken Together:

The measured change index during 2001-02 to 2011-12 in technical efficiency change (TECI), technological change (TCI), pure technical efficiency change (PTECI), scale efficiency change (SCEI) and total factor productivity change (TFPCI) concerning all the selected banks are demonstrated in **Table1**.

Table1: Average changes in Total Factor Productivity (TFP) and its components for all the selected public and private sector banks in India during the period 2001-02 to 2011-12

Decision Making Units (DMUs)	Groups	TECI	TCI	PTECI	SECI	TFPCI
AXIS	Pvt.SB	1.000	1.113	1.000	1.000	1.113
BOB	PSB	1.002	1.020	1.001	1.001	1.022
BOI	PSB	1.001	1.027	0.996	1.005	1.028
CB	PSB	1.007	1.013	1.000	1.007	1.020
CBI	PSB	1.000	1.109	1.004	0.996	1.109
Federal	Pvt.SB	1.000	1.012	1.000	1.000	1.012
HDFC	Pvt.SB	1.000	1.160	1.000	1.000	1.160
ICICI	Pvt.SB	1.000	1.001	1.000	1.000	1.001
Indusind	Pvt.SB	0.997	0.999	1.000	0.997	0.996
ING Vys	Pvt.SB	0.985	1.035	1.000	0.985	1.019
J&K	Pvt.SB	0.988	1.018	0.992	0.996	1.006
K. Bnk	Pvt.SB	0.991	0.984	1.000	0.991	0.975
K.Vys	Pvt.SB	0.998	1.010	1.000	0.998	1.008
OBC	PSB	1.000	1.105	1.000	1.000	1.105
PNB	PSB	0.990	1.031	1.000	0.990	1.021
SB	PSB	1.000	1.133	1.000	1.000	1.133
SBI	PSB	0.952	1.014	1.000	0.952	0.966
SIB	Pvt. SB	0.997	1.013	0.999	0.999	1.010
UBI	PSB	0.991	1.022	0.991	1.000	1.013
UCO	PSB	1.006	1.127	1.002	1.004	1.134
Geometric Mean (GM)	-	0.995	1.046	0.999	0.996	1.041

According to technical efficiency change index 20% of banks increased their average annual technical efficiency. Yet, as for the 35%, no change has been observed.

Among the selected banks which progressed in technical

Table2: Year-wise average changes of Total Factor Productivity and its components of all the selected public and private sector banks in India					
Years	TECI	TCI	PTECI	SECI	TFPCI
2002	-	-	-	-	-
2003	0.991	1.058	0.984	1.007	1.048
2004	1.007	1.021	1.009	0.997	1.027
2005	0.984	0.919	0.985	0.999	0.904
2006	1.016	0.986	1.009	1.008	1.002
2007	0.979	1.026	0.998	0.981	1.004
2008	1.002	1.025	0.999	1.003	1.028
2009	0.985	1.046	1.005	0.980	1.031
2010	1.010	0.999	1.006	1.004	1.009
2011	0.997	0.976	0.990	1.007	0.973
2012	0.982	1.494	1.007	0.974	1.467
GM	0.995	1.046	0.999	0.996	1.041

Table3: Average changes in Total Factor Productivity and its components of selected public sector banks in India					
DMUs	TECI	TCI	PTECI	SECI	TFPCI
BOB	1.003	1.003	1.002	1.001	1.006
BOI	1.000	1.012	1.000	1.000	1.012
CB	1.000	0.987	1.000	1.000	0.987
CBI	1.002	1.096	1.004	0.998	1.098
OBC	1.000	1.105	1.000	1.000	1.105
PNB	1.000	0.998	1.000	1.000	0.998
SB	1.000	1.130	1.000	1.000	1.130
SBI	1.000	0.948	1.000	1.000	0.948
UBI	1.000	1.001	1.001	0.999	1.001
UCO	1.000	1.136	1.000	1.000	1.136
GM	1.000	1.040	1.001	1.000	1.040

efficiency Canara Bank (0.7%) and UCO Bank (0.6%) take the place on top; nevertheless, SBI (4.8%) and INGVys Bank (1.5%) are the top two regressed banks. SBI, due to decay in its scale efficiency; J&K Bank, due to both scale and pure technical efficiency showed diminution in technical efficiency. AXIS Bank, CBI, Federal Bank, HDFC Bank, ICICI Bank, OBC and SB have no change in technical efficiency.

It also has been observed that there are average annual 4.6% improvements in technology. 90% of the banks improved, but 10% declined technologically during the study period. HDFC Bank (16%), SB (13.3%) and UCO Bank (12.7%) are the top three among the banks that improved performance technologically. But the backward banks are Karnataka Bank (1.6%) and Indusind Bank (0.1%). The annual average growth in total factor productivity for the relevant period is 4.1%. Improvement in 85% and regression in 15% of the banks is observed. Having high increase in total factor productivity during the study period, HDFC Bank (16%) and UCO Bank (13.4%) are the top two. These banks' factor productivity increase is not only based on the improvement in technical efficiency but also on technological innovation.

SBI (3.4%) showed the highest decline in total factor productivity. The decrease in technology, as well as technical efficiency regression of K.Bnk and Indusind Bank contributed to total factor productivity reduce.

From **Table2** we have seen that, there occurred a decline (0.5%) in annual average technical efficiency during 2001-02 to 2011-12. The same results are observed both in pure technical efficiency and scale efficiency. As the scale efficiency and pure technical efficiency are decreased by 0.4% and 0.1% respectively, the average annual technical efficiency level also deteriorated by 0.5%. 2007 is the year when the technical efficiency level hit the bottom, and 2006 is the peak year. Nonetheless, 2012 is the year of technical progress, and 2005 is of decline. In parallel with these

Table4: Year-wise average changes of Total Factor Productivity and its components of the selected public sector banks in India					
Years	TECI	TCI	PTECI	SECI	TFPCI
2002	-	-	-	-	-
2003	0.981	1.074	0.994	0.987	1.053
2004	1.009	1.026	0.997	1.012	1.036
2005	0.998	0.877	1.002	0.996	0.875
2006	1.002	0.979	1.004	0.998	0.981
2007	0.997	1.006	1.005	0.992	1.003
2008	0.989	1.051	0.999	0.990	1.039
2009	1.015	1.012	1.001	1.013	1.027
2010	1.008	0.981	1.003	1.005	0.989
2011	0.986	0.954	0.993	0.993	0.941
2012	1.020	1.557	1.010	1.011	1.589
GM	1.000	1.040	1.001	1.000	1.040

two parameters, 2012 is observed as the year to have highest increase level in total factor productivity. There appeared a decline in TFP in 2005. Concerning the period average, it is concluded that banks' total factor productivity, depending on the improvement in technology and technical efficiency, rose 4.1%.

Analysis of Factor Productivity Efficiency of select public sector banks in India

The measured change indexes during 2001-02 to 2011-12 in technical efficiency, technology, pure technical efficiency, scale efficiency and total factor productivity concerning public sector banks are demonstrated in **Table3**.

In respect of technical efficiency change index; 20% of public sector banks increased in their average annual technical efficiency, and 80% of them recorded no change. BOB (0.3%) and CBI (0.2%) are the banks that increased their technical efficiency. The banks that didn't show any change in their technical efficiency are BOI, CB, OBC, PNB, SB, SBI, UBI and UCO Bank.

The average annual technological progress is measured as 4% with respect to technological change index. It is seen that 70% of banks showed progress, 30% of them declined in their technology during the study period. UCO Bank (13.6%) showed highest technological progress. SBI (5.2%), CB (1.3%) and PNB (0.2%) showed technological regression.

The average annual growth rate in total factor productivity for the concerned period is 4%. During the study period UCO Bank (13.6%) improved its highest total factor productivity; which is subject to its technological progress.

The banks which lived regression it their total factor productivity are SBI (5.2%), CB (1.3%) and PNB (0.2%). SBI, CB and PNB because of its decline in technology retreated in their total factor productivity.

As can be seen in the **Table4**, the average annual technical efficiency change index and scale efficiency change index showed no growth during the study period. But the improvement in technological change efficiency and in pure technical efficiency by 4% and 0.1% respectively is found. 2012 is the top year for public sector banks in terms of highest technical efficiency rate. Yet, 2003 is the top year of regression. Technological advancement reached its peak in 2012 and regression in 2005. Dependently; the highest rate in total factor productivity is reached in 2012. There occurred a regression in 2005. As of the period average, total factor productivity of public sector banks, depending on the progress not only in technology but also in technical efficiency, advanced 4%.

Analysis of Factor Productivity Efficiency of select private sector banks in India

The measured change indexes during the period in 2001-02 to 2011-12 for technical efficiency, technological change, pure technical efficiency, scale efficiency and total factor productivity concerning private sector banks are demonstrated in the below **Table5**.

It is discovered that 10% of the private sector banks improved their average annual technical efficiency, 30% of them regressed, and 60% of them recorded no change in their average annual technical efficiency. Only SIB (0.2%)

Table5: Average changes in Total Factor Productivity and its components of selected private sector banks in India					
DMUs	TECI	TCI	PTECI	SECI	TFPCI
AXIS	1.000	1.115	1.000	1.000	1.115
Federal	1.000	1.007	1.000	1.000	1.007
HDFC	1.000	1.161	1.000	1.000	1.161
ICICI	1.000	1.002	1.000	1.000	1.002
Indusind	0.997	1.001	1.000	0.997	0.998
ING Vys	0.985	1.035	1.000	0.985	1.019
J&K	1.000	1.002	1.000	1.000	1.002
K.Bnk	0.993	0.982	1.000	0.993	0.975
K.Vys	1.000	1.006	1.000	1.000	1.006
SIB	1.002	1.002	1.000	1.002	1.004
GM	0.998	1.030	1.000	0.998	1.027

Table- 6: Year-wise average changes of Total Factor Productivity and its components of the selected private sector banks in India					
Years	TECI	TCI	PTECI	SECI	TFPCI
2002	-	-	-	-	-
2003	0.983	1.064	0.986	0.997	1.046
2004	1.013	0.987	1.014	0.999	1.000
2005	0.980	0.896	0.984	0.996	0.878
2006	1.022	0.983	1.013	1.008	1.005
2007	0.977	1.032	0.995	0.982	1.009
2008	1.002	1.033	1.006	0.996	1.035
2009	0.989	1.042	0.996	0.993	1.031
2010	1.007	1.013	1.008	0.999	1.020
2011	1.010	0.945	0.993	1.016	0.954
2012	0.996	1.361	1.005	0.991	1.355
GM	0.998	1.030	1.000	0.998	1.027

improved its technical efficiency. ING Vys Bank (1.5%), K.Bnk (0.7%) and Indusind Bank (0.3%) declined in their technical efficiency. The banks which didn't improve their technical efficiency are AXIS Bank, Federal Bank, HDFC Bank, ICICI Bank, J&K Bank and K.Vys Bank. ING Vys Bank, K.Bnk and Indusind Bank, due to its decline in scale efficiency, retreated in their technical efficiency.

The average annual technological improvement is measured as 3% according to technological change index. It is observed that 90% banks made progress technologically during the whole period. HDFC Bank (16.1%) and AXIS Bank (11.5%) are the top two banks. Technologic change index having a positive change value means that there has been an increase in the output amount produced by the similar amount of input. In other words they hoist their production efficiency level.

With respect to total factor productivity change index, the average annual growth rate for the concerned period is 2.7%. For 80% of private sector banks total factor productivity has improved, and for 20% it is declined. HDFC Bank (16.1%) and AXIS Bank (11.5%) are the top two banks which improved their total factor productivity during the study period. Total factor productivity improvement in case of HDFC Bank and AXIS Bank is subject to just because of their technological progress. Only SIB witnessed improvement because of its both technological progress and technical efficiency. The bank which regressed most in total factor productivity is K.Bnk (2.5%). Its regression is parallel with the regression in its technical efficiency, technological change and scale efficiency change. Average changes in private sector banks total factor productivity indexes over the year is shown in **Table6.**

It can be seen from the Table6 that there has been regression in average annual technical efficiency during the study period. The average annual technical efficiency index turned out to be 0.998. Then again, the regression in

Table7: Average Total Factor Productivity Index Value by year on groups and all the banks taken together			
Years	All banks	Public sector banks	Private sector banks
2002	-	-	-
2003	1.048	1.053	1.046
2004	1.027	1.036	1.000
2005	0.904 (L)	0.875 (L)	0.878 (L)
2006	1.002	0.981	1.005
2007	1.004	1.003	1.009
2008	1.028	1.039	1.035
2009	1.031	1.027	1.031
2010	1.009	0.989	1.020
2011	0.973	0.941	0.954
2012	1.467 (H)	1.589 (H)	1.355 (H)
GM	1.041	1.040	1.027
Range	0.563	0.713	0.477
CV%	14.624	18.801	11.995
[Source: Table 2, 4 and 6]; [H = Highest TFP value, L = Lowest TFP value]			

the scale efficiency; which is one of the important constituent of technical efficiency index eventuated in the technical efficiency average regression. It might be put forward that this regression takes its source from the regression in scale efficiency.

In 2006 the improvement in technical efficiency is at most and in 2007 the regression in technical efficiency is at most. Besides, 2012 is the year when technological improvement is at most, and 2005 is the year when it is at the least. Dependently; the highest rate in total factor productivity is reached in 2012. Its lowest rate is recorded in 2005. In spite of the regression in technical efficiency, total factor productivity of the private sector banks, owing to progress in technology, rose 2.7%.

Analysis of year-wise mean TFP growth of select bank groups

From **Table7** it has been found that in the year 2005 the average (GM) of total factor productivity indexes for all the respective groups are lowest and among them, select public sector banks group have the lowest mean TFP value. The table also depicted that for the year 2012 all the banks and groups achieved highest mean TFP growth and the highest value is found in case of public sector banks.

The average mean (GM) TFT growth of Public Sector Banks as a whole is 4% where as in case of Privet Sector Banks it is 2.7% only. So it can be said that Public Sector Banks are the better performer in term of TFT growth as compared to the Private Sector Banks.

Range is the difference between highest and lowest value and accordingly highest range (71.3%) is observed in case of selected public sector banks, which indicate inconsistency in the performance in terms of mean TFT growth.

But highest consistency in the performance in terms of mean TFP growth is found in case of selected private sector banks because they have the lowest Coefficient of Variation (CV) (11.99%).

Summary of findings

Taking all the performance measurement criteria (technical efficiency, technological change and total factor productivity change) into consideration, the banks having the highest

PRIVATE SECTOR BANKS HAVE RECENTLY DONE A TREMENDOUS JOB REGARDING CUSTOMER SATISFACTION AND SOCIAL RESPONSIBILITY TO IMPROVE THEIR PRODUCTIVITY GROWTH

Table8: Banks with highest and lowest level of performance						
DMU						
Groups	TECI		TCI		TFPCI	
	Most Efficient	Most Inefficient	Most Efficient	Most Inefficient	Most Efficient	Most Inefficient
Public						
(PSBs)	BOB (0.3%)	-	UCO (13.6%)	SBI (5.2%)	UCO (13.6%)	SBI (5.2%)
Private						
(Pvt.SBs)	SIB (0.2%)	ING Vys (1.5%)	HDFC (16.1%)	K.Bnk (1.8%)	HDFC (16.1%)	K.Bnk (2.5%)
All Banks	CB (0.7%)	SBI (4.8%)	HDFC (16%)	K.Bnk (1.6%)	HDFC (16%)	SBI (3.4%)
[Source: Table 1, 3 and 5]						

and lowest level of performance are given in **Table8**.

BOB and SIB are encountered to be the banks with highest level of technical efficiency improvement within PSBs and Pvt.SBs respectively. ING Vys bank under Pvt.SBs showed with highest level of technical efficiency regression. Among all the banks taken together CB is observed to improve technical efficiency at optimum level, and SBI is to regress at the highest ratio. Besides this it has been found that the banks with highest level of technological advancement are UCO Bank and HDFC Bank under PSBs and Pvt.SBs respectively. SBI and K.Bnk are turned out to be the banks with lowest technological advancement under PSBs and Pvt.SBs respectively. Among all the selected banks taken together the highest level of technological advancement is found in case of HDFC Bank. The bank with the highest level of technological backward is K.Bnk.

Finally we can say that UCO Bank and HDFC Bank are in highest position in terms of total factor productivity growth among the group of PSBs and Pvt.SBs respectively. The highest regression rate in terms of this criterion belongs to SBI and K.Bnk under PSBs and Pvt.SBs respectively. In case of all the select commercial banks taken together in terms of mean TFP, HDFC Bank is discovered to have the highest level of total factor productivity growth rate and SBI is seen to be just vice versa.

Conclusion

As the public sector banks are dominating the market, it has become a difficult task for private sector banks to change the market position and consumer attitudes swiftly. But recently they have done the tremendous job regarding customer satisfaction and social responsibility to improve their productivity growth in this competitive environment. Using the Malmquist total factor productivity index method finally we conclude that the Public Sector Banks are the better performer in term of TFT growth as compared to the Private Sector Banks. This performance of public sector banks arises basically due to the improvement of technological efficiency. To enhance the productivity growth, inefficient banks should improve their technical efficiency, accept modern technological innovation, optimum utilisation of resources as well as government should minimise restrictions on banking activities. From this study we also recommend that the private sector banks need to improve their technological as well as technical efficiency to compete with the public sector banks. Given that technology is the main driver of the productivity in the banking sector, we suggest that RBI should design a practicable protocol for technological standard requirement for the banking sector.

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Appendix	
The selected public and private sector banks are:	
Public Sector Banks (PSBs)	Private Sector Banks (pvt. SBs)
State Bank of India (SBI)	ICICI Bank (ICICI)
Punjab National Bank (PNB)	HDFC Bank (HDFC)
Bank of Baroda (BOB)	Axis Bank Ltd. (AXIS)
Bank of India (BOI)	Federal Bank Ltd. (Federal)
Canara Bank (CB)	Jammu and Kashmir Bank (J&K)
Union Bank of India (UBI)	Indusind Bank Ltd. (Indusind)
Central Bank of India (CBI)	ING Vysya Bank (ING Vys)
Syndicate Bank (SB)	Karnataka Bank (K.Bnk)
Oriental Bank of Commerce (OBC)	South Indian Bank (SIB)
UCO Bank (UCO)	Karur Vysya Bank (K.Vys)

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NOTIFICATION

It is hereby notified vide Notification Nos. 18-CWR (3068-3091)/2013 dated 7th August 2013, 18-CWR (3092 -3115)/2013 dated 12th August 2013, 18-CWR (3116-3135)/2013 dated 14th August 2013, 18-CWR (3136-3146)/2013 dated 16th August 2013, 18-CWR (3147-3169)/2013 dated 19th August 2013, 18-CWR (3170-3190)/2013 dated 23th August 2013, 18-CWR (3191-3206)/2013 dated 26th August 2013, 18-CWR (3207-3271)/2013 dated 30th August 2013, 18-CWR (3272-3306)/2013 dated 4th September 2013, 18-CWR (3307-3334)/2013 dated 9th September 2013, 18-CWR (3335-3367)/2013 dated 12th September 2013, 18-CWR (3368-3390)/2013 dated 16th September 2013, 18-CWR (3391-3416)/2013 dated 19th September 2013 and 18-CWR (3417-3438)/2013 dated 24th September 2013 in pursuance of Regulation 18 of the Cost and Works Accountants Regulations, 1959 that in exercise of the powers conferred by Regulation 17 of the said Regulations, the Council of the Institute of Cost Accountants of India has restored to the Register of Members, the names of members, details of which are uploaded on the Institute's website www.icmai.in.

COMPANIES ACT 2013: AUDITORS TO BECOME A VANISHING BREED?

With stringent regulations in the Companies Act 2013, we may see accountants more in practice or in service rather than auditing companies

TCA Ramanujam
Chief Commissioner of Income Tax (retd.), Advocate High Court, Madras

TCA Sangeetha
Masters in Law

Silesh Haribhakti is an Auditor of all India renown. He is the Chairman of DH Consultants. Commenting on the new company law, Haribhakti observes:

"A glance at various provisions of the new legislation makes it clear that the days of the Auditing firms are numbered and soon the Auditors will be an extinct breed". The provisions relating to the functioning of the auditors are no doubt rigorous.That only shows the concern of the Government to ensure that crisis of the types faced in USA in the aftermath of the Enron debacle do not occur in India.

The Companies Act of 1956 closely followed the provisions of Sections 159 and 160 of the English Act when it incorporated Sections 224, 225 etc., Experience of the past 50 years has shown that the Audit profession is crucial to the growth of the company. The new law recognizes the importance of the Audit profession.

Internal auditor

Section 138 of the Companies Act 2013 lays down for the first time in the annals of company law that prescribed that companies shall appoint an Internal Auditor who shall either be a Chartered Accountant or a Cost Accountant to conduct Internal Audit of the functions and activities of the company. It is also open to the Board to choose any other professional. The government will prescribe the rules regarding the manner of audit.

In the case of listed and specified class of companies, an individual can be appointed as auditor for a term of five consecutive years. An audit firm can be appointed for two terms of five consecutive years. Auditors have to be rotated and a transition period of 3 years is provided to companies to comply with the mandatory rotation principle. A Limited Liability Partnership is also entitled to be appointed as auditors but in this case only partners who are Chartered Accountants shall be authorized to do the work.. Eligibility Conditions laid down have to be strictly to be complied with. The new law takes into account the latest Rules laid down by the Chartered Accountants Act, 1949 as amended in 2006. A firm or its partner having business relationship with the company or its subsidiary will be disqualified. So also any person whose relative is in the employment of the company as a Director or key managerial Personnel will be disqualified. Even indebtedness of the auditor to the company will be a disqualification. He will stand disqualified even if his relation is indebted to the company. Section 143 prescribes the powers and duties of the Auditors. If any offence comes to his Notice involving fraud by Officers or employees, the Auditor should report the matter to the Central Government. This provision under Section 143 applies both to Chartered Accountant and the Cost Accountant in practice and also the company secretary in practice. Failure to report fraud will be punishable with stiff penalties.

The Auditor's reports should state the observations or comments on financial transaction or matter having any adverse affect on the functioning of the company.

Accounting standards

The appointment of Auditors will have to be approved by the General body of the company.. There is no need for a special resolution, except for removal of the auditors before the expiry of the term. An auditor resigning from the company should file a statement indicating reasons for such resignation. Failure to file such statement is punishable with fine. The Act of 1956 did not recognize auditing standards. The new Act requires compliance with auditing standards.

Section 148 empowers the Central Government to prescribe cost records in respect of prescribed classes of companies. Previous approval of the Central Govt. is no longer required for appointment of Cost Auditor. The remuneration of the Cost Auditor shall be determined by Members of the Company and not by the Board alone. The new law does not permit the appointment of a Chartered Accountant to undertake Cost Audit if sufficient number of Cost Accountants are not available. The new Act recognizes Cost Auditing Standards (CAS) issued by the Institute of Cost and Works Accountants of India (now Institute of Cost Accountants of India) with Central Govt. approval. The new Act makes it mandatory for Cost Auditor to comply with CAS while conducting Cost Audit. The old Act did not confer any statutory recognition to the CAS.

Auditors barred from rendering certain services

For the first time in India, certain services are barred from being rendered by the Auditor. Section 144 of the Act of 2013 lays down that an Auditor appointed under the Act shall not directly or indirectly provide any of the following "other services" (i.e. services other than statutory audit under the 2013 Act) to the company or its subsidiary:

a. Accounting and Book Keeping Services Internal Audit
b. Design and Implementation of any financial Information System
c. Actuarial Services
d. Investment Advisory Services
e. Investment Banking Services
f. Rendering of Outsourced Financial Services
g. Managerial Services
h. Any other kind of services as may be prescribed.

Auditors have to attend general meeting either by himself or through an authorized representative who is qualified to be an Auditor.

Section 147

Section 147 of the new law makes the Auditors liable criminally for contravention of provisions relating to contents of Audit report and for contravening Section 144 and signing of Audit Report under Section 145. The minimum fine can be Rs.25,000/- and the maximum Rs.5 lakhs. Section 147 also provides for imprisonment and fine ranging from Rs.1 lakh to Rs.25 lakh if the contravention is willful and is meant to deceive the company or its shareholders or creditors or tax authorities. The convicted auditor should refund the remuneration and also make good the loss by way of damages.

Section144 forbids the providing of services mentioned therein directly or indirectly.

Company Secretary

The functions of the Company Secretary are also laid down in the new Act. He has to report to the Board of Directors about compliance with the law and also compliance with Secretarial standards. The Act makes it compulsory that there should be secretarial audit by a company secretary in practice in the case of listed companies and prescribed class of companies.

The Act also lays down a limit of 20 for auditors to take up audit.

National Company Law Tribunal

The new Act proposes the setting up of a National Company Law Tribunal to oversee the functioning of the company. The Tribunal can order change of auditors if it finds any fraud or abetment or collusion in any fraud by the company. Such Auditors will be banned for five years.

The Act sets up the National Financial Reporting Authority which will oversee the quality of service provided by the Auditors. This will be in addition to the review by the ICAI. The National Company Law Appellate Tribunal is also being set up. The President should be a person who has been a judge of a High Court for five years. The strength has been increased to 11 members by Section 411 of the Act. Technical members having special knowledge or professional experience of not less than 25 years in Science, Technology, Economics, Banking, Industry, Law, Labour Accountancy etc., will be governed by Section 411.

Conclusion

Apart from these stringent regulations, the Auditor under the new company law will also have to reckon with the concept of class action suits. Henceforth, members and depositors of a company can claim damages or compensation for any improper or misleading statement made in the reports.

No wonder, Silesh Haribhakti thinks that the auditor will become a vanishing breed. We may see accountants more in practice or in service rather than auditing companies. MA

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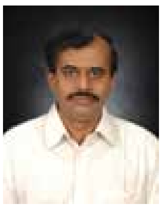
THE MARKETING OF MERCY: THE SERVICE TAX AMNESTY FOLLOW-UP

It is not enough that the VCES is advertised and marketed like a product or a service… The administration must also offer courteous customer care services so that potential declarants do not think twice before turning themselves in under the scheme



Ravindran Pranatharthy
Advocate,
Indirect taxes
& IPRs

The Central Board of Excise and Customs is anxiously keeping its fingers crossed watching the inflows into the service tax treasury on account of its amnesty scheme. The Amnesty is marketed like it were a product or a service. The image is getting a makeover. But the 'field formations' of the department may be playing spoilsport with their own CBEC by raiding potential entrants practically out of the scheme at the whiff of an enquiry from such potential Declarants about the scheme. When the scheme was originally announced, the disappointment with the scheme was palpable all-round. The dismal fine print of this scheme further added to the gloomy forecast for the scheme. There were just too many questions about the amnesty plan. The CBEC which was expected to gather upwards of Rs.15,000 crores from the scheme has been struggling with a niggling figure of about a few hundred crores thus far. Belatedly, the administration got its act together and announced some 'clarifications' in the scheme which it hopes would improve the prospects of getting a sizable sum of revenue from the scheme. The CBEC issued two circulars on the scheme offering the following carrots:-

- The provision of Section 106(2)(a)(iii) of the Finance Act, 2013 relating to VCES {introducing a bar under the Scheme when production of accounts, documents or other evidences under the Finance Act or the Rules made thereunder as a result of an enquiry or investigation or audit and which is pending as on 1st March, 2013} will be attracted only when the requisition has been exercised by the officers under Section 14 of the Central Excise Act read with Section 83 of the Finance Act, 1994, Section 72 of the Finance Act and Rule 5A of the Service Rules, 1944. No other communication from the department would attract Section 106(2)(a)(iii) and thus would not lead to rejection of the declaration to be made under VCES.
- A mere communication from the Department quoting the authority 14 of the Central Excise Act will also not be a bar under Section 106(2)(a).
- Those among the different business units of a Declarant at different locations that are not affected by any issue of show cause notice or other binding communication from the department will be eligible for the VCES benefit, even if some other units of the same business was affected by issue of such SCN or other binding communication.
- Any service tax that has been paid utilizing irregular CENVAT credit amounts to non-pay-

ment of service tax and therefore such service tax amount will be covered by the definition of "tax dues".

- A party against whom an enquiry or investigation or audit has been initiated after 1.3.2013 is not barred from filing declaration under the VCES scheme (for the previous period).
- Even in a case where the assessee has been audited and an audit para has been issued, the assessee can declare liability on an issue which is not part of the audit para, under the VCES 2013.
- If a Declarant has made mistakes in his declaration under the VCES and discovers the same on his own, he may approach the designated authority who after taking into account the overall facts of the case may allow amendments to be made in the declaration, provided that the amended declaration is furnished before the cut off date, i.e. 31st December, 2013.
- The Declarant need not wait for the acknowledgement of his declaration under VCES in order to make payment. The Declarant can pay the tax dues even before the acknowledgement is issued by the department.
- Any rejection of the declaration filed by the assessee under the VCES will be subject to due process such as show cause notice and hearing by the designated authority.

By far, the most important drawback of the amnesty has been the stipulation that the tax dues have to be satisfied in cash and that CENVAT credit cannot be used to pay for this tax. However, the scheme does not propose that CENVAT credit on input services used in providing the output services in respect of which the amnesty tax is payable is not available to the assessee for post-amnesty carry forward. In the area of Central excise and Service tax it is a settled law that even in cases involving the invoking of extended time limit on account of suppression of facts etc, the availment of CENVAT credit for adjustment against the belated tax is not deniable. The following cases establishing the principle may be noted:-

- FORMICA INDIA DIVISION vs. CCE -1995 (77) ELT 511 (SC)
- SUPER STEEL MANUFACTURING COMPANY PVT LTD vs. CCE (INDORE) – 2003 (152) ELT 166 (Tribunal –Delhi)
- GAREWARE SYNTHETICS LTD vs. CCE, MUMBAI – 2000 (125) ELT 740 (Tribunal)
- CCE vs. SAIL – 1990 (47) ELT 389 (Tribunal)

The availability of CENVAT credit of the service tax or excise duty against the five year demand has been expressly debarred only in the hands of the buyers of such assessees. In other words, when a manufacturer or a service provider is forced to pay central excise duty or service tax arising from the issue of show cause notice even involving allegation of suppression of facts etc, such manufacturer or service provider may be in a position to pass on such tax liability to their respective buyers, subject to their contract. But such buyers are not permitted to avail CENVAT credit vide Rule 9 of CENVAT Credit Rules, 2004. The relevant provision in Rule 9 specifying acceptable documents for cenvat credit in this regard is extracted below:-

"Rule 9(1)(bb): A supplementary invoice, bill or challan issued by a provider of output service, in terms of the provisions of Service Tax Rules, 1994 except where the additional amount of tax became recoverable from the provider of service on account of non-levy or non-payment or short-levy or short-payment by reason of fraud or collusion or wilful mis-statement or suppression of facts or contravention of any of the provisions of the Finance Act or of the rules made thereunder with the intent to evade payment of service tax".

Therefore, it would appear that in the absence of a clear stipulation in the provisions of the Finance Act, 2013 relating to the service tax Amnesty Scheme prohibiting the taking of CENVAT credit, one could say that the Declarant under the scheme can avail CENVAT credit of eligible inputs, input services and capital goods as the case may be. The only onerous requirement for such a Declarant would be to possess CENVAT credit documents in the name of the Declarant and the settlement of such bills by the Declarant. Therefore, even if such a Declarant is not in a position to utilize the existing CENVAT credit balance to offset the amnesty tax dues, the availability of CENVAT credit on inputs, capital goods and input services for **post-amnesty carry forward and future utilization** is not prohibited.

It is also not clear from the provisions of the Amnesty Scheme as to whether the Declarant would be able to pass on the credit through supplementary bill and whether such bills would also come within the mischief of Rule 9(1)(bb) of CENVAT Credit Rules, 2004. The department needs to clarify this aspect as well.

The Central Board of Excise and Customs has issued two Circulars No.169/4/2013-ST dated 13th May, 2013 and Circular No.170/5/2013-ST dated 8th August, 2013 clarifying several issues in order to bring about the success of the Amnesty Scheme. The total number of clarifications aggregate to 23.

The following grey areas still linger and await the light of further clarifications:-

CENVAT credit

When the provisions of Chapter VI of the Finance Act, 2013 carry no provision disallowing utilization of CENVAT credit for the payment of tax dues under the VCES 2013, the stipulation against CENVAT credit contained in Rule 6(2) of Service Tax Voluntary Compliance Encouragement Rules, 2013 appears ultra vires. The CENVAT credit is available for adjustment against output tax for all assessees including those against whom the department issues show

The controversial clarifications are as follows:-		
Sl.No.	Issues	Clarification
13.	What is the appeal mechanism against the order of the designated authority whereby he rejects the declaration under section 106(2) of the Finance Act, 2013?	The scheme does not have a statutory provision for filing of appeal against the order for rejection of declaration under section 106(2) by the designated authority.
17.	Whether the CENVAT credit is admissible on the inputs/ input services used for provision of output service in respect of which declaration has been made under VCES for payment of any liability outside the VCES?	The VCES Rules 2013 prescribe that CENVAT credit cannot be utilized for payment of 'tax dues' under the Scheme. Accordingly, the 'tax dues' under the Scheme shall be paid in cash. The admissibility of CENVAT credit on any inputs and input services used for provision of output service in respect of which declaration has been made shall continue to be governed by the provisions of the CENVAT Credit Rules, 2004.
18.	(a) Whether the tax dues amount paid under VCES would be eligible as CENVAT credit to the recipient of service under a supplementary invoice? (b) Whether CENVAT credit would be admissible to the person who pays tax dues under VCES as service recipient under reverse charge mechanism?	Rule 6(2) of Service Tax Voluntary Compliance Encouragement Rules 2013 prescribes that CENVAT credit cannot be utilized for payment of 'tax dues' under the Scheme except this condition. All issues relating to admissibility of CENVAT credit are to be determined in terms of the provisions of the CENVAT Credit Rules. As regards admissibility of CENVAT credit in situations covered under part (a) and (b), attention is invited to rule 9(1)(bb) and 9(1)(e) respectively of the CENVAT Credit Rules.
19.	In terms of section 106(2)(b), if a declaration made by a person against whom an audit has been initiated and where such audit is pending, then the designated authority shall by an order and for reasons to be recorded in writing, reject such declaration. As the audit process may involve several stages, it may be indicated as to what even would constitute,— (i) initiation of audit; and (ii) culmination of audit	Initiation of audit: For the purposes of VCES, the date of the visit of auditors to the unit of the taxpayer would be taken as the date of initiation of audit. A register is maintained of all visits for audit purposes. Culmination of audit. The audit process may culminate in any of the following manner – (i) Closure of audit file if no discrepancy is found in audit. (ii) Closure of audit para by the Monitoring Committee Meeting (MCM). (iii) Approval of audit para by MCM and payment of amount involved therein by the party in terms of the provisions of the Finance Act, 1994. (iv) Approval of audit para by MCM and issuance of SCN, if party does not agree to the para so raised. The audit culminates at a point when the audit paras raised are settled in any manner as stated above. The pendency of audit as on 1.3.2013 means an audit that has been initiated before 1.3.2013 but has not culminated as on 1.3.2013.

cause notices even under the extended time limit. Denial of this principle to the Declarants under a subordinate rule does not seem fair or proper.

Even though the Declarants under the scheme are enjoined from using the CENVAT credit to pay off the tax credit, there is no prohibition in the VCES Law that such Declarants cannot accumulate and carry forward the CENVAT credit accruing during the impugned period. The department may do well to clarify on the permissibility of CENVAT credit carry forward and future adjustment.

Confidentiality of disclosure

The VCES Law has no provision assuring the confidentiality and non-disclosure of the contents of the declaration in the hands of the department or its officers and its possible transmission to other agencies of the Government. A reassuring clarification on this aspect may make this scheme more attractive as there is an apprehension among potential Declarants that the information contained in their declaration may be made available or 'leaked' to other tax agencies of the Central and State Governments.

Audit para

The CBEC should clarify if the word 'audit' in the VCES law means only its Internal Audit and not the audit carried out by the CERA. It is well-known that the CERA paras never achieve closure even after long years. The allusion to monitoring committee meeting in the departmental circular would seem to imply that the VCES audit bar does not extend to CERA audits.

Refund under the scheme

Section 109 of the Finance Act, 2013 mandates that any amount paid in pursuance of a declaration made under Sec-

THE IMMEDIATE NEED IS TO ADVISE THE FIELD FORMATIONS NOT TO RESORT TO COUNTER-PRODUCTIVE ACTION SUCH AS SUMMONS AND RAIDS ON POTENTIAL DECLARANTS

tion 97(1) shall not be refundable under any circumstances. There may be cases where a Declarant may have over paid the tax by mistake of calculation or by mistaking an exempted activity as a taxable service. There may also be cases where even though the amount has been paid by the Declarant, there could be judgments of the High Courts and the Supreme Court negativing service tax liability on certain services which were the subject of the declaration filed under the scheme. In such circumstances, the department should not hesitate to come forward to sanction refund of taxes found to be not due.

Appeal

The absence of a mechanism for an appeal against the rejection of the VCES Declaration by the designated authority may not be fair. However, an appeal to the next appellate authority such as Commissioner(Appeals) or the Tribunal should lie as a matter of course given the fact the appeal provisions allow appeal against any "decision" or order of the lower authorities.

Conclusion

The low rate of flow of revenue under the scheme should be a cause of concern to the CBEC. The immediate need is to advise the field formations not to resort to counter productive action such as summons and raids on potential declarants. A recent case in point is the judgment of the Hon'ble Allahabad High Court in the case of ANAND CATERERS Vs. UNION OF INDIA and 3 others – AIT – 2013 – 162 – HC where the petitioner moved the High Court against the action by the preventive wing of the department who resorted to recovery powers under Section 87 of the Finance Act, 1994 by issuing a garnishee order to coerce the payment of Rs 60 lakhs from the bankers of the petitioner. The action was initiated despite the petitioner having filed the declaration under the VCES. The Hon'ble High Court held that "when the liability of service tax is admitted and application has been made under the VCES scheme on 20th June, 2013, then no recovery proceedings could be taken until the application is disposed of and which, under Section 107 permits the defaulter to deposit tax in two instalments i.e. to pay 50% by 31st December, 2013 and remaining 50% by 30th June, 2014.

Further, the petitioner has demonstrated that he fulfils the eligibility conditions of VCES, 2013 and that unless the application is considered and decided, no proceedings under Section 87 may be allowed to continue. The object of the Service Tax VCES, 2013 may be defeated, if the recovery is allowed to proceed".

The Government needs to sweeten the deal further if it were to make a good success of the VCES. Not everyone who failed to pay service tax would be an inveterate tax evader. The non-payment of tax would arise on account of genuine interpretation or an earlier case law which might have got changed subsequently or as a result of a retrospective application of tax law. It is common knowledge in this country that people who wish voluntarily to go to the Government agencies to turn over a new leaf and declare their intention to pay their dues are harassed the most. This is what deters most people from effecting disclosures and suffering the consequent hassles. It is not enough that the VCES is advertised and marketed like a product or a service in the commercial world. The administration must also offer courteous customer care services so that potential declarants do not think twice before turning in under the scheme. The objectives of the Government in bringing the amnesty scheme are also long term. It is to keep the 'converted' assessees within the taxpayer community without relapsing into non-payment of tax, so as to ensure steady stream of tax revenues. It is this larger public interest of the long term revenues that is the mitigating offset against the basic lack of ethics of a tax amnesty. The VCES should be implemented with good faith and enthusiasm and the potential Declarants should be treated humanely and with fairness and not with hostility. MA

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Circulars galore – Welcome and unwelcome

Section 119 authorises the Central Board of Direct Taxes to issue Circulars clarifying the law for purposes of proper and efficient management and for removal of genuine hardship to ensure proper administration of the Act. Benevolent Circulars of the Central Board of Direct Taxes (Board) have been found to be binding on the Assessing Officers, while the other Circulars do not bind the tax-payers. There have not been many Circulars of benevolent kind. In fact, Circulars have been rare, though many of the subsisting controversies could have been resolved one way or the other, if the power under section 119 had been exercised.

Recently there has been a spurt of Circulars. Circular No. 2 and 3 cancelled or modified under Circular No.5 and 6 are the recent ones, which have been discussed in the August issue of The Management Accountant. There is a bunch of five more Circulars. Three Circulars have been prompted by the seven mandates issued by the Delhi High Court in the decision in Court On Its Own Motion v. CIT (2013) 352 ITR 273 (Del). Circular/Instructions No.6 and 7 are most welcome and they have not come a day sooner.

Interest on delayed refunds will be given

Circular/Instruction No.7 dated 15th July, 2013 (2013) 356 ITR (St.) 6 directs the Assessing Officers not to deny the interest on delayed refunds under section 244A except where the delay is due to the fault of the assessee himself. Instances where refunds are adjusted against the outstanding demands has also come up in the Circular. Adjustments are sometimes made on non-existing arrears. Even where they are existing, section 245 requires set off of the refunds against the arrears, only after show cause notice before such adjustment. Wrong adjustments can be avoided, if assessee is given an opportunity to explain the relevant facts. Instruction expects officers to comply with this law. It is a welcome circular.

Wrong adjustments of refunds will be corrected

Circular/Instruction No.6 of 2013 dated 10th July, 2013 (2013) 356 ITR (St.) 4 makes a specific reference to the wrong adjustments to wrong arrears, because of false or wrong uploading in the computer system in processing in the returns by the Central Processing Centre, Bangalore to which this task has been outsourced. The Assessing Officers have been pleading helplessness with Central Processing Centre not geared for tackling the complaints on its own. The Circular now directs the Assessing Officers to deal with them by issue of notice based upon Central Processing Centre output, but after considering the assessee's response to show cause notice and follow the procedure under section 245 for adjustment. The entire exercise is also expected to be completed before the time limit to be set by the Board. It is another welcome circular.

Clarification(?) on set off of losses of eligible undertaking

Circular/Instruction No.7(DV) of 2013 dated 16th July, 2013 (2013) 356 ITR (St.) 7 explains the departmental view of the law relating to relief under section 10A/ 10AA/ 10B/ 10BA. Section 10A and 10B according to the departmental view substitutes the exemption hitherto available by deduction, when 10A and 10B were substituted for 10A with effect from 1.4.2001. This view is reiterated in the present Circular. The effect of the departmental view is that the relief under these sections would be available only against the gross total income computed under Chapter IV, so that where there is a loss or lesser gross total income, relief will be either lost or diluted, as the case may be. This is an anomalous interpretation, since these reliefs fall under Chapter III, which covers exemption. Merely because the exemption is computed on a different basis as for deduction, it cannot cease to be exemption.

As regards the loss of eligible undertaking under the sections meant for exports, such loss will be set off against other income. It is welcome, but in reckoning the eligible profits of the succeeding years, the loss, even if it had been adjusted against other income would again be adjusted by following the requirement of Chapter VI in reckoning the profits of the eligible unit, an anomaly in law carried over to Chapter III. This Circular, which the Assessing Officers are expected to follow, would not be binding on the assessees. These interpretations are controversial. Probably these issues could have been resolved more fairly, since the benefits are primarily meant for exports falling under Chapter III and litigation avoided. Chapter III, it must be remembered, falls under the generic title "Incomes, which do not form part of total income in Chapter III".

A Circular on TDS Credit in need of revision

Circular/Instruction No.5 dated 8th July, 2013 (2013) 356 ITR (St.) 2 refers to the manner in which TDS credit has to be given in the context of failure of deductor to file necessary report in AS 26. The mandate of the High Court decision referred to has required the Income-tax Department to grant credit on the basis of the TDS certificate filed by the assessee. This is certainly most welcome, since assessing officers need not any longer wait for the correction on the part of the deductor. There is, however, a rider in the circular by way of a condition that the tax deducted should have been deposited with the Government before such credit could be given. The mandate of the High Court in this regard has been taken too literally, though it is most unlikely that the High Court wanted credit to be denied even where there was tax deduction at source but deductor failed to deposit it. Such an interpretation would mean that the deductee underwrites the debt of the deductor to the Government, when he himself does not owe it, apart from the unfairness of passing on the burden of the deductor to the deductee for no fault of his. It is also not a correct understanding of the law.

The reasoning of the circular is that the assessing officer has to verify the tax deduction certificate filed by the deductee. It can only be for the purpose of considering the genuineness of the tax deduction certificate and not on the question whether tax has been deposited by the deductor, since it is a matter that is beyond what is possible for the deductee, because he has no power to enforce collection, which the Department alone has. Tax that is deductible and in fact has been deducted, is the liability of the deductor, so that such tax along with interest and possible penalty can be enforced under section 201. Tax deduction certificate is mandatory under section 203. Section 198 treats the tax deducted as the income of the assessee, but at the same time requires grant of credit under section 199. Section 199(1) treats tax deducted as the amount paid by the deductee. It is, therefore, necessary that the deductee is not deprived of his right to credit for any fault of the deductor. As otherwise, it would make a mockery of our laws in expecting the deductee to make good the tax which the Income-tax Department has failed to enforce from the deductor.

The law in this regard is well settled. Revenue cannot recover the tax that was deducted at source from the deductee as decided in Yashpal Sahni v. Rekha Hajarnavis, Asst. CIT (2007) 293 ITR 539 (Bom). The tax deduction certificate itself contains the information as to the date of deposit of tax, so that where the column is blank, it is notice enough to the Department to take action. Direct payment by the deductee is required as an alternate liability only where tax is not deducted at all and not where tax has to be deducted at source as has been brought out in Hindustan Coca Cola Beverage P. Ltd. v. CIT (2007) 293 ITR 226 (SC). This position of law has been recognised also by an amendment by the Finance Act, 2012 to section 40(1)(ia) and section 201 to spare the deductor for failure to deduct tax only where deductee has paid tax on necessary procedure enjoined under section 201. In fact, section 209 provides for advance tax allowing the assessee to take into account the tax that is deductible or collectible, so that it would be against the scheme of law to expect failure of the deductor to be made good by the deductee. The circular would need review. MA

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NOVARTIS PATENT CASE: A WIN-WIN SITUATION

The apex court has shown considerable insight and expertise in its judgment which finally benefitted the *aam aadmi*

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The Supreme Court's judgment in the case of Swiss pharmaceutical major Novartis' patent for the cancer-fighting drug Glivec, has aroused mixed response throughout the world. Western pharmaceutical majors see a big hit, while the Indian counter parts making the generic version of the medicine, the Cancer Patients Aid Association etc see a victory. The Apex court ruled that the active ingredient, *imatilib myselate*, did not exhibit novelty and was a known compound even before Glivec came into existence, and hence patenting was ineligible. Despite having the same drug was patented in 40 odd countries, Novartis lost its patenting plea in India on technical grounds. Novartis sold the drug at Rs. 120,000 per patient per month, While the Indian counterparts – Cipla, Natco –sold the generic version of the drug at a one-tenth price, around Rs.8000 per patient per month. As seen in the pricing, Patent (and hence the profits of pharmaceutical majors) and Access to affordable medicine are the players of the see-saw game- one up, the other down and vice-versa. The judgment recognizes and highlights the right of patients to accessible and affordable medicine over profits of organizations. While Novartis sees the same as a setback for effective treatment options that will for sure, in the long run, hinder the medical progress of a country. Also, the judgment paved the way for more caution amongst the pharmaceutical majors, who will now think twice before entering India or seeking an IP here.

Technological progress is an important indicator and contributor of economic growth. At the rate of growth in technology and competition today, companies may carve a niche position only if they recognize the importance and of R&D and invest in technology properly. For sure, such companies investing heavily in R&D and technology sustain in the market and excel others. Most pharmaceutical majors, therefore have a R&D function, which is like the back bone and a differentiator too. These companies spend a huge amount of money, time and resources in the Research & Development function for innovating and discovering new drugs to treat ailments and newer processes, the major elements being the cost of basic research, clinical trials and development expenses. For example, Dr. Reddy's invests around 10% of their turnover in R&D, Sun pharma invests around 5% of its net sales in R&D. Also certain drugs also have a R&D time as high as 12 years. For instance, as Pfizer claims, there is 1-6 years Discovery phase, 5-7 years pre-approval study phase and ½-2 year approval process. Also, 100% success is not guaranteed in every R&D trial. And we know all such costs form part of the cost of the drug directly or indirectly. R&D, being an unpredictable function, companies are more worried about their profitability and returns. Thus, having spent millions of dollars into the R&D stream, companies patent their discoveries, enjoy an exclusive branded position and try to earn a profit as a result of their industrious and laborious R&D.

Patents by large pharmaceutical companies,

THOUGH THE CLAUSE OF REJECTION IS TECHNICAL, THIS IS A WIN FOR CHRONIC MYELOID LEUKEMIA (CML) PATIENTS IN THE COUNTRY BECAUSE THEY WILL CONTINUE TO HAVE ACCESS TO THE DRUG

hence, should not be viewed by the government or public as robbing them. Patented drugs must be priced smartly for affordable health care. However, the war between patents and price is not a question without an answer. A win-win situation is quite possible here for each of the four major players, rather pillars, in the industry – they being the Pharmaceutical Companies, the Government, the Society and the Cost & Management Accountant (CMA) for an easy and amicable going. Collaboration between all the players mentioned is highly essential for success in the right direction.

Role of pharmaceutical companies

Though the Corporate Social Responsibility keeps most pharmaceutical majors working with the patient groups in providing education and treatment to ailments, their ultimate motto is generating returns on the investments made. R&D being a function with heavy expenditure and very low success rates, companies patent their discoveries to recover the initial investment made in R&D. However, it is needed that the companies and the government act together to better sell the patented drug with a subsidy. Also, a company is sure to take a soft breath when the sales of its patented drug are routed through the government or its agencies. Such an environment encourages the companies to continue their R&D function for new drugs or ailments, as it ensures a promising return. In this way, the price can be subsidized and the affordability and availability of the drug makes everyone happy.

Most companies have a vested interest to boost their R&D expenditure as this highlights their soiled hard work in developing and innovating new drugs. Companies have to extend their co-operation and show transparency in this regard to achieve a scientific costing and pricing structure for the patented drugs. Also, most companies do not reveal the chemical names or products used in the reactions. The confidential product may be only a common salt, but its role in the reaction concerned may a new science to the world. The term 'Confidential Product' makes it more important and costly. Such costs have to be scientifically measured.

Role of government

The rejection of the Novartis patent is certainly a laudable move from the government. Though the clause of rejection is technical, this ultimately is a win for the chronic myeloid leukemia (CML) patients in the country who will continue to have access to the drug at the lowest possible cost from multiple suppliers. If patented, this would have costed around a lakh rupees a month per patient, which is now available at around ten thousand rupees a month, thereby increasing the affordability to the aam aadmi. Affordable health care, which is a social objective, to the 1.2 billion Indians is the responsibility of the government and not the business organizations. Also, the R&D function cannot be seen as a hobby of the pharmaceutical companies. Only a continuous R&D can deliver safe and effective medication, so supporting the R&D is equally a responsibility of the society. It is suggested that the government take up the R&D function, just like any other pharmaceutical company, and take patents for at least some of the essential bulk drugs and pharmaceuticals, whose price is now controlled by the Drug Price Control Order. Since generics do not creep into the market post-patent, usually for 20 years, the government can ensure subsidized price and affordable health care for its population. The government's presence and participation in the field, apart from Notifications and Orders that drive the industry with alertness, will surely bring in a healthy picture and competition in the arena.

It is also suggested that the Government to setup boards or scrutiny entities, formed by a team of Cost and Management Accountants, which review the cost statements of the patented drugs of the companies and suggest a margin or pricing depending on the market need. A smart pricing here will surely prove beneficial to the companies, society and the government. Since R&D cost a major element in the costing and pricing of a drug, a thorough study of the R&D expenditure should be made. Also, the R&D function enjoys may tax sops and credits, the benefit of which has to be passed to the end users. This however requires transparency and trust on the part of the companies while disclosing their cost statements and confidential products or chemicals, as already mentioned.

Companies like Novartis, that have patented in multiple countries, recover the R&D expenditure manifold. A patent application in a new country will give the company an exclusive right to sell in the country. It is the government's responsibility to control the sky-rocketing price in such monopolistic situations by way of an Act or Order or the like.

Role of society

The apex court has shown considerable insight and expertise in its judgment which finally benefitted the *aam aadmi*. Access to medicine is not only limited by the patenting of drugs, but other factors like availability of health care personnel, better infrastructure for treatment and diagnosis, quality of service, poverty, health education, counterfeit drugs etc. also have a greater impact. There may a 'no' when it comes to patents and huge R&D expenditure but certainly a 'yes' when it is our own life with life-saving drugs. R&D may be an alien in the beginning but will be an acquaintance when the time comes. It is high time for the society to realize this and act accordingly.

Role of CMA

We firmly believe that the CMA fraternity has a greater role to play in the arena. The current wave of Cost Audits applicable to pharmaceutical companies already is a welcome step in this industry and is the stepping stone to success in the required direction. This however, needs a bolder beginning and step on the part of the Cost and Management Accountants and the Government so that integrity is ensured in the processes and pricing related to patented drugs especially. Apart from the Generally Acceptable Cost Accounting Principles with respect to Research & Development expenditure, a Cost Accounting Standard on R&D expenditure, will prove to be of greater help in achieving the same. As per AS-26, the accounting standard on Intangible Assets, expenditure incurred on Research is to be treated as an expense when incurred, while the expenditure on Development is to be treated as asset only if the enterprise demonstrates

a) technical feasibility and intention of completing the asset so that it will be available for use or sale
b) existence of market for the asset so generated and that there are probable future benefits
c) the availability of adequate technical, financial and other resources to complete the asset, and to use or sell it subsequently
d) its ability to measure the costs incurred for the asset reliably using its internal costing systems.

Once the development phase expenditure is treated as asset, it will have to be amortized over the useful life of the asset. However, where the enterprise cannot distinguish the research phase from the development phase in creating the intangible asset, the enterprise treats the expenditure on that project as if it were incurred in the research phase only. In the pharmaceutical industry, where the bare existence and survival of a drug in the market depends on several factors and certainty cannot be established, the companies may not risk to estimate the life of a drug and amortize the Development phase expenditure over its life. At times, a part of the expenditure may remain without amortization if the drug fails in the market even before its estimated useful life. Since R&D is a function with unpredictable swings in either direction with lower success rates, most companies prefer to charge the expense incurred to Profit & Loss Account.

Treatment of R&D expenses in certain pharmaceutical companies

Novartis charges the costs of Internal Research & Development (IR&D) to 'Research & Development' in the consolidated income statement in the period in which they are incurred. Internal development expenses of new products are capitalized as an intangible asset only if a marketing approval is obtained from a regulatory authority. Payment made to third parties for subcontracted R&D are treated as expense until it meets the criteria of internally generated intangible asset and a marketing approval has been obtained from regulatory authority. Payments made to third parties in order to in-license or acquire intellectual property rights, compounds and products (IPR&D), including initial upfront and subsequent milestone payments, are capitalized as are payments for other assets, such as technologies to be used in R&D activities. Costs for post-approval studies performed to support the continued registration of a marketed product are recognized as marketing expenses. Costs for activities that are required by regulatory authorities as a condition for obtaining marketing approval are charged as development expenses as they are incurred in cases where it is anticipated that the related product will be sold over a longer period than the activities required to be performed to obtain the marketing approval. In the rare cases where costs related to the conditional approval need to be incurred over a period beyond that of the anticipated product sales, then the expected costs of these activities will be expensed over the shorter period of the anticipated product sales. As a result, all activities necessary as a condition to maintain a received approval, whether conditional or not, are expensed in the consolidated income statement.

Pfizer records R&D costs as expenses when incurred, including the costs incurred towards licensing arrangements. Before a compound receives regulatory approval, all costs are treated as expense. Only once a regulatory approval is received for a compound, the costs are capitalized and amortized over the expected product life cycle or the agreement term, whichever is shorter. This means an accurate measurement of product life and with certainty is quite important.

Dr. Reddy's recognizes the Research expenditure spent for gaining new scientific knowledge and understanding as expense in the Profit & Loss account when incurred. Development expenses incurred for planning or designing of new or substantially improved products or processes are capitalized only if the development costs be measured reliably, the product is technically and commercially feasible, the future economic benefits are probable and ascertainable and the company intends to and has sufficient resources to complete the development and has the ability to use or sell the asset.

Sunpharma charges all its research related expenditure to Profit & Loss account. All subsequent expenditure incurred on development is carried under 'Capital Work in Progress', as an intangible asset upon demonstration of probability of future economic benefits. In case a project does not proceed as per expectations or plans, the same is abandoned and the amount classified as development expenditure under 'Capital Work in Progress' is charged off to the profit and loss account.

However, with proper records, the cost of successful R&D may be allocated / apportioned to products on a reasonable basis and the cost will be absorbed by the product. But in case the R&D is a failure, a simple write off is done in the books of accounts. But, when it comes to the Cost Sheet, there is a need to throw light on the following with regard to CAS 13, the Cost Accounting Standard on Cost of Service Cost Centers.

The cost of production and distribution of service shall be determined based on the normal capacity or actual capacity utilization, whichever is higher and unabsorbed cost should be treated as abnormal cost. The pace of Research phase and Development phase are usually not the same. Research involves obtaining new knowledge, searching, evaluating and selecting materials, products, devices, processes, systems or services and the like, while Development involves the design, construction and testing of the chosen alternative. A faster pace means rapid cost incurrence, and when such a highly variable cost is to be determined based on capacity, there is a chance that most of it being abnormal and not being absorbed by products.

Proper accounting, allocation and apportionment of R&D costs is highly essential, especially in case of patented drugs.. We know how steeper the price variations are solely due to the presence or absence of R&D expenditure. And such a pricing has a major hit on affordability, availability and accessibility of the drug. Hence, a scientific measurability of each and every dollar spent is the need of the hour using our standards. Only a smart and scientific pricing enables to create an easy yard-stick and compare the R&D process efficiencies and efficacies too.

The role of a CMA becomes more significant and increasingly difficult as it has to honor the expectations of the three major groups above i.e., - the pharmaceutical majors, government and society. We all know that Costing function is a scientific art, and this is where we all have to prove our metal. Our decisions in costing and therefore pricing, in these situations, are very much ruling and have a direct bearing on the aam aadmi. Be it 'India Shining' or 'Bharath Nirman', we are the drivers and pace makers. Thanks to our profession, for a smart and affordable pricing is ultimately our objective.

Only then all is well.

References

1) *2011-12 Annual reports of Novartis, Pfizer, Dr. Reddy's and Sun pharma companies* MA

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AT THE HELM

Congratulations to Mr M. K. Mittal, a Fellow member of the Institute of Cost Accountants of India for taking over as Director (Finance) in DFCCIL with effect from September 2013. He was General Manager (Finance) at Rural Electrification Corporation Limited (REC) before this new appointment. He has more than 30 years of experience in the field of Finance and Accounting. Besides REC, he worked with Haryana State Electricity Board, Haryana Vidyut Prasaran Nigam Limited as Chief Accounts Officer and Company Secretary. He has also worked as Director (Finance) in Hindustan Organic Chemicals Limited, at Mumbai, for 19 months.

We wish Mr Mittal the very best in all his future endeavours.

SMALL SHAREHOLDER ACTIVISM AND REDRESSAL OF GRIEVANCES IN INDIA: A SURVEY

The study finds that retail shareholders must protest in groups for their voices to reach the management because alone, they are susceptible

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Shareholder activism in India: A prologue

It is widely believed that shareholder activism is in nascent stage in India. This is due to existence of several unresolved disputes relating to loss of shareholder wealth in the Indian companies and lack of their effort before lodging the initial complaint and after the same is lodged in an organized manner. So far there are instances of shareholder protests with in the group of large shareholders and fund managers only respectively because of the size of investment involved and the profession of efficiently handling others money. Indian individual shareholders seem to remain not only uninterested in most ideal circumstances of lodging their protest but unable too, to exercise their legal rights like they are not even seen to sign and deliver their proxy forms before their companies' AGM impending some serious issues for discussion.

Shareholders who have for years remained investors in a company where they were not even paid any dividend appeared a little anxious only when the company finally decided to delist itself. When they felt that the price paid by the management was highly disproportionate to the value of the firm, all that they had done was to write letters to the editors of general newspapers in their "grievance" column, that too when offered by the respective newspapers as their readers or at the most in the financial dailies. However, their indifferent attitude does not mean that they are satisfied with the performance of the companies rather they depend a lot on the regulators to keep a vigil on the developments. It only means that the individual shareholders could hardly influence the management of companies. Sometimes, even they are not aware of the corporate policies on certain key business issues of the investee companies and thus the way they may be deprived of their rights. Sometimes, the shareholders who can manage to gather at the AGM due to their proximity to the venue agitate over the gifts and refreshments only in the meeting; they can hardly raise any serious issue for debate or discuss over an issue that would extract useful information / response from management.

The retail investors are scattered across the country and hence it is not always feasible for them to attend the AGM of the different companies in which they hold shares. Moreover, given their small shareholding, they may not have the incentive to vote. Though their individual shareholdings are infinitesimal, together they constitute a significant percentage of the total shareholding. Hence, their combined vote would have a substantial impact on the decision making.

India has been closely following the US and UK structure of stock markets and the regulations governing them. But our markets are neither as efficient as theirs nor are our compliance standard of the regulations as good as theirs. Sometimes, we satisfy ourselves by looking at these countries' corporate frauds and scams but we are far off the pace of enquiry and consequent punishment which immediately follows these scams in these countries. Notwithstanding the existence of a seemingly comprehensive network of public institutions established for investor protection in India, a series of scams have taken place that have shaken the confidence of the investors since 1991. However, despite the numerous scams that have rocked our financial markets and caused losses of millions to investors, even a couple of investigations into such scams is not seen reaching a logical conclusion as a consequence of which investors have been able to get back their money or have been awarded damage. In fact, the slow and expensive judicial trial without any hope of exemplary damages awarded at the end of the successful litigation is itself a deterrent to investor activism.

Indian corporates in the private sector are characterized by limited institutional ownership with promoters including family-owned business groups dominating the ownership followed by individual (public) shareholders. The institutional investors, which on an average have less than 10 % of ownership, are reported to be mostly interested in the bottomline of the companies and usually vote in favour of the dominating business family.

The absence of strong investors' associations is a major lacuna in the Indian capital market. Those which exist have very few members who are serious activists and are able to understand capital market related issues, and also operate at local level.

On the other hand, it has also been expressed at various corners that investor activism is largely an undersized force in India having much potential. Hence, there is a need to objectively define the probable factors that affect the level of investor awareness and in turn investor activism in India in order to strive towards a better investment environment.

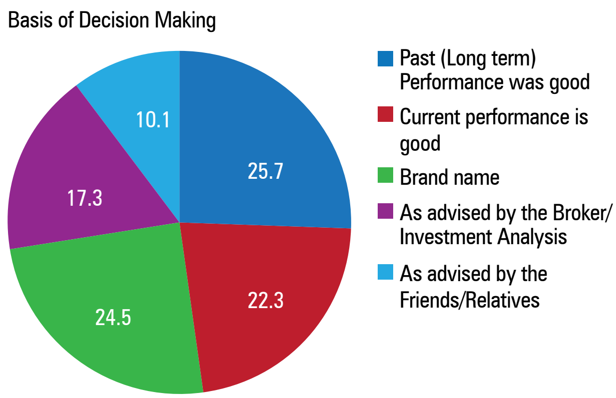
Investor awareness: a brief note on Investor guidance initiatives in India

India is a large country with a huge potential investor populace and growing disposable incomes awaiting deployment in multiple avenues of investment. Yet, the percentage of the Indian population participating in the share market is very low. Thus, the savings of the economy are not adequately channelised into financial instruments. On the other hand, the Indian stock market has witnessed impressive technological progress regarding the trading system.

Investor awareness may be defined as investors' knowledge about their rights and consciousness about the mechanism for lodging the complaints and getting their grievances redressed. However, the level of awareness will also depend on the investors' initiatives to lodge the complaints and getting those redressed. This will also indirectly rely on their interest to monitor the affairs of the company, the performance of the company and the action of the management. Investor activism will actually depend on the awareness level of the investors.

The lack of investor awareness about markets, products, market operations and low levels of financial literacy is widely circulated in various published materials. Even, in this study, as depicted in Chart 1 below, a little over 10% of the retail investors still depends upon their friends and relatives before choosing a company for investment and further 17.3% of them depends upon the brokers' suggestions for choosing an investment. This indicates that still the investors are not taking any clue of the published news and information about the companies for choosing a prospective investment.

Chart1: Basis of investing in a particular company



One key role of the regulators in a country or of the Investors' Associations is to guide and educate the investors at large. In India, the primary regulator, the SEBI and the different stock exchanges like BSE and NSE provide guidance to the investors regarding safety of their investments. SEBI publishes and circulates booklets and hold campaigns across the country to spread awareness among the investors and also to foster confidence among them. Office of Investor Assistance and Education, and Investor Grievances and Guidance (IGG) Division in SEBI play a major role in this direction. The role played by the stock exchanges is however not as distinct as that of SEBI. But, they also have attempted infrequently to guide investors at large through awareness programmes and booklets. Since the existence of Investors' Associations is very much localized in the country, their guidance of investors is not noticeable. However, some big broker firms organize Investors' meet mainly to discuss probable profitable investments including shares and mutual funds and also in some instances innovative investment schemes like derivatives and commodity markets. Through these meets, a large section of investors are made aware of many important legal and procedural aspects of investment though this may not necessarily have been the main objective of organizing such meets.

Literature review

Across the world a lot of research and studies have been conducted on investor activism and many of them address certain questions such as whether shareholder activism influences corporate decision making, returns on equity investment and corporate governance. Few studies have also been done in India but all of them have focused on activism by institutional investors which are about the large shareholders only and none have discussed the role of individual smaller shareholders in activism. Moreover, most studies have examined the impact of ownership structure only on the investor activism and its role in bringing about greater investor activism. J. R. Varma (1997) opines that the problem in the Indian corporate sector is that of disciplining the dominant shareholder and protecting the minority shareholders. The paper discusses the increasing power of capital market to discipline the dominant shareholder by denying him access to the capital market and the facilitating role of the regulators with the help of suitable measures. On the other hand, J. Sarkar and S. Sarkar (2000) enumerate the role of large shareholders in monitoring company value with respect to India. They find foreign equity holding having a beneficial effect on the company value. L. Gillan and L. T. Starks (1998) study the evolution of investor activism in the United States. J. M. Karpoff (2001) summarizes the impact of investor activism on firm's value, earnings, operations and governance structure. He found most evidence indicating investor activism to prompt small changes in target firm's governance structures, but with negligible impact on share values and earnings.

Research gap

Following a major yet common limitation of the earlier studies that they have taken into account the level of activism only at large shareholder level, the present study looks into the level of shareholder activism mainly among the small shareholders. Till now, in India, there exists some data published by the regulators at macro level on redressal of investor grievances. But, the investors' own responses about the role of the regulators in redressing their grievances were not looked into. In addition, the study finds out the possible impact of investor awareness on investor activism.

Objectives of the study

The study has the following main objectives:

1) to test the level of investor awareness in India by examining into the effect of investor guidance,

2) to look into the level of investor activism in India by finding out the effect of investor awareness,

3) to demonstrate the level of grievance redressed by the regulators in this survey

Methodology

Sample

The sample consists of 431 individual equity investors, who are defined as those people who have invested in a particular company for over one year as on March, 2010. This has been done to ensure that they have had the opportunity to attend one AGM at least, and further the speculators could be excluded from the respondents. From the initial batch of sample investors, such investors are considered as final respondents who have basic knowledge of the terminologies related to equity market. The questionnaire includes some basic terminologies to test awareness. From the initial batch of sample investors again the long term shareholders have been targeted as they get a greater amount of benefit in future from management of the company for their present activism. Characteristics of sample investors taken into study have been presented in Tables 9,10,11 and 12 in Annexure I.

Data source

The list of the individual equity investors has been collected from database available with the brokers or sub-brokers. The investors are questioned with the help of a close-ended questionnaire to collect the information needed for the study. The questionnaire has been designed after feedback from people in the industry and academics.

The final questionnaire has been e-mailed / personally interviewed / posted to different investors and their responses are collected accordingly. Individual investors across the country are personally questioned to collect their responses. But, West Bengal as a state and Kolkata as a city was represented most in the sample due to convenience of data collection from them. One investor was asked to fill up only one questionnaire related to a single company even though he had investment in various companies. This has been done to avoid the repetition of the respondent's biases if multiple responses were received from the same respondent. The information related to the initiatives taken by the regulators to educate the investors has also been collected. This information includes the investor guidance booklets published and distributed by SEBI from time to time and the investor awareness campaigns held by them across the country.

Hypotheses

1) Alternate Hypothesis

There is significant relationship between Investor awareness and Investor guidance.

2) Alternate Hypothesis:
There is significant relationship between Investor activism and Investor awareness.

Scheme of investigation

1. In order to test the awareness of the investors, their responses to the questions in the awareness section of the questionnaire has been taken on a 5 point scale. A score of 1 to 5 is given in order of higher awareness. The awareness section of the questionnaire consists of 4 sub sections having a separate set of questions in each sub section, viz., 'primary', 'secondary', 'good' and 'advanced'. The primary sub section consists of responses to 2 variables, the secondary sub section includes 9 variables, and the good sub section has 4 variables and the advanced sub-section contain responses to 11 variables. Cronbach's alpha is calculated for each of the sub sections to provide information about the internal consistency of those variables which make up these sub-sections. The different sub sections have been allotted different weights according to their importance (say, 1, 2, 3 and 4 according to the advancement in the level of awareness). Finally, awareness has been calculated as a composite score of all such responses as follows;
(Primary average * 1) + (Secondary average * 2) + (Good average * 3) + (Advanced average * 4).
2. In order to test the guidance available to the investors, the investors' responses to the questions in the Guidance section of the questionnaire in Part A has been taken on a 5 point scale. A score of 1 to 5 is given in order of higher guidance. This section contains responses to 5 questions. Cronbach's alpha is calculated to provide information about the internal consistency of those variables which make up the guidance section. A composite score of 'guidance' has been calculated to measure the effectiveness of the guidance provided by market regulator and stock exchanges. The composite guidance score is calculated by adding the response to the questions in that section.
3. Activism can be defined as the ultimate change in decision that takes place in a company due to investors' efforts and awareness. In countries where shareholder activism has a strong hold, an important measure of activism is through the proxy route. However, in India it is difficult to employ it as a measure of activism. So we have constituted activism as the efforts of the shareholders in reading reports, attending AGMs or appointing representatives, protesting individually or in groups and investors' own efforts in lodging the complaints that brings in the above change. The investors' response has been taken on a 5 point scale. A score of 1 to 5 is given in order of higher degree of activism as measured by responses to the questions in the respective sub sections. This section contains 5 variables whose internal consistency is checked using Cronbach's Alpha. Finally, the composite activism score is calculated as average of the responses to the first 4 questions of that section as under:
(Average of 4 questions * 1) + (response to 5th question * 2)

Statistical techniques used

The principal statistical tool to be used for the analysis is regression analysis. The regression coefficients denote the estimated change in the dependent variable for a unit change in the independent variable. Regression has been done to test the linear relationship between the different variables included in the study. A simple regression has been run taking guidance as the independent variable and awareness as the independent variable. Another simple regression has been run taking awareness as the independent variable and activism as the dependent variable.

In order to test the reliability of the data, Cronbach's alpha is used. It is an assessment of the degree of consistency between multiple measurements of a variable. Cronbach's alpha is calculated for each of the sections to provide information about the internal consistency of those variables which make up these sections. Applying this test specifies whether the items pertaining to each dimension are internally consistent and whether they can be used to measure the same construct. According to Nunnaly (1978), Cronbach's alpha should be 0.700 or above. But, some of studies (Gerrard et al., 2006; Kenova and Jonasson, 2006) opine that 0.600 as a value may also be considered acceptable. The high alpha indicates strong internal consistency among the variables. Based on the favorable test of reliability, the composite scores have been calculated for the different variables like awareness, guidance, and activism.

Findings

This section has been divided into four sub-sections. The first sub-section gives a comprehensive description of the sample investors, the second sub-section provides that results of reliability test, the third sub-section summarises the results of the regression analysis and the third sub-section examines the descriptive statistics relating to the grievance of the respondents and its redressal only.

Descriptive statistics

In this section a detailed description of the sample has been provided to depict the efforts taken by the respondents in attending AGMS protesting against management and exhibiting their grievances.

Table1: Classification of samples based on frequency of attending AGMs

Frequency	Always	On most occasions	Alternate year	When I get time	Never
Number of respondents	17	23	9	121	261

A shocking 60.56% of the respondents have never attended an AGM. This not only highlights the lack of awareness but also the lack of interest to understand and question the policy decisions of the company. 28.07% of investors attend AGM when they get time. It is not always feasible for retail shareholders to attend the AGM of the different companies in which they hold shares. The solution would be to start e-voting wherein the shareholders would login using a unique identification number and express their opinion on the different issues. Fortunately, SEBI has recently instructed 500 top listed companies in BSE and NSE to incorporate e-voting from October 1, 2012[1] . This is a praiseworthy initiative that would ensure wider participation of retail shareholders in the decision making process of the company.

Chart2: Classification of samples based on frequency of attending AGMs

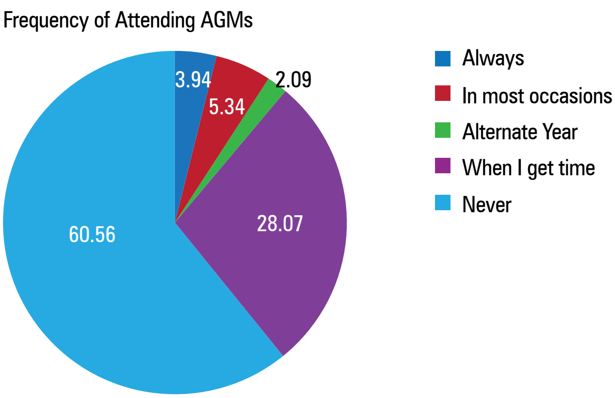


Table2: Classification of samples based on frequency of appointing representatives to AGMs					
Frequency	Always	On most occasions	Alternate Year	When I get time	Never
Number of Respondents	10	17	17	71	316

73.32 % of the respondents never appoint representatives to attend AGM in their absence. No doubt that most decision of the company are passed in the AGM in favour of the management with little resistance from the shareholders.

[1]"SEBI asks top 500 firms to provide e-voting facility from October", Press Trust India, July 10, 2012.

Chart3: Classification of samples based on frequency of appointing representatives to AGMs

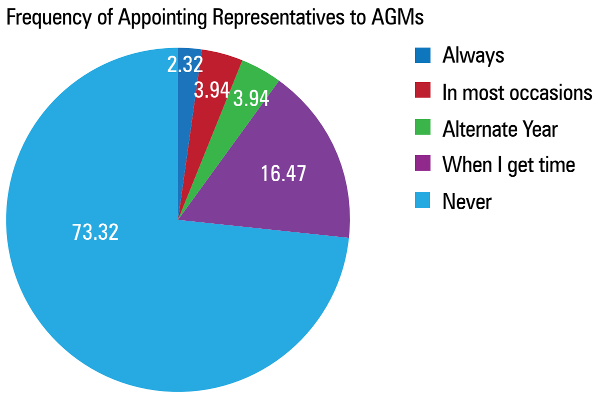
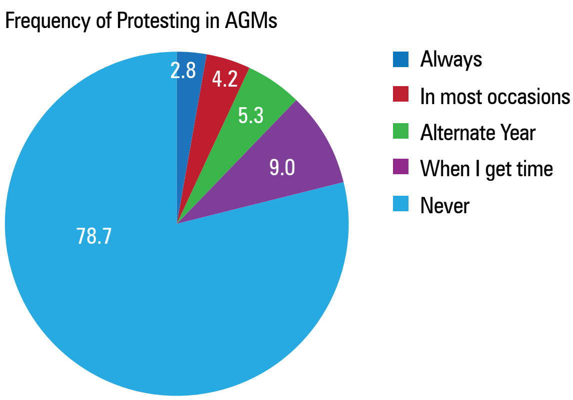


Table3: Classification of samples based on frequency of protesting in AGMs					
Frequency	Always	On most occasions	Alternate Year	When I get time	Never
Number of Respondents	12	18	23	39	339

78.7% of the respondents never protest against any decision of management. Retail shareholders may not be in a position to always protest as they lack the financial support. However, they may form group protest to increase their bargaining power.

Chart4: Classification of samples based on frequency of protesting in groups in AGMs



Retail investors are expected to protest in group as their investments size is too meagre for their voices to be heard. However, 74% of the retail investors do not build mass protest. This highlights that apart from being unaware the shareholders even lack the interest to make an effort to safeguard

Table4: Classification of samples based on frequency of protesting in groups in AGMs					
Frequency	Always	On most occasions	Alternate Year	When I get time	Never
Number of Respondents	9	35	26	42	319

their interest. They either rely on other investors to take up the issue or wait for the regulator to take action after the damage has been done.

Chart5: Classification of sample-based on pattern of reading annual reports

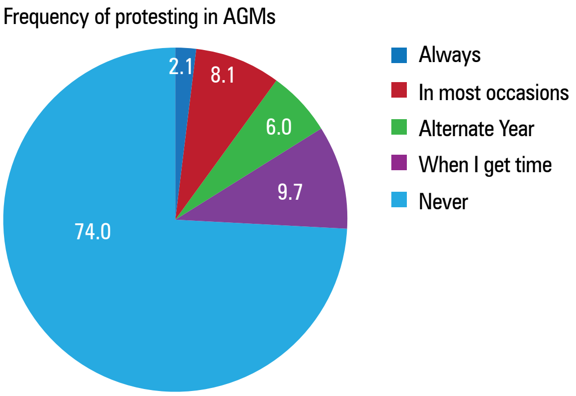


Table5: Classification of samples based on pattern of reading annual reports					
Pattern	Reads the whole carefully	Reads selected portion carefully	Reads the whole ordinarily	Reads a few pages casually	Doesn't read
Number of Respondents	56	137	58	76	104

31% of the total respondents reads selected portion of the annual report carefully. Only 13% of the respondents read the whole carefully and 24.1% don't read it at all and depend on others to guide them about a prospective investment (see **Chart6**).

Reliability Test results

Reliability is an assessment of the degree of consistency between multiple measurements of a variable. One type of diagnostic measure is the reliability coefficient that assesses the consistency of the entire scale, with Cronbach's Alpha being the most widely used measure. The generally agreed upon lower limit of Cronbach's Alpha is 0.70 although it may decrease to 0.60 in exploratory research.

Chart6: Classification of samples based on pattern of reading annual reports

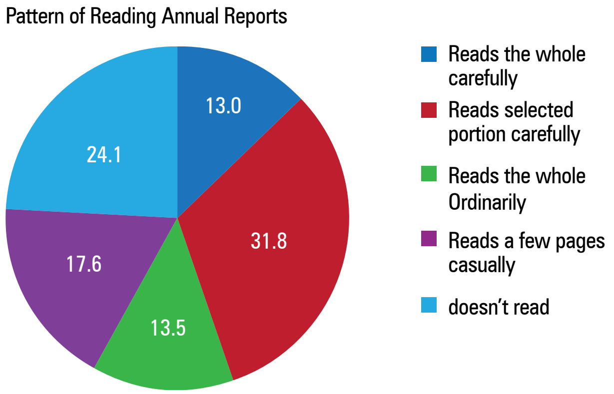


Table6: Results of Cronbach's Alpha		
	Cronbach's Alpha	N of Items
Awareness secondary	.881	9
Awareness good	0.876	4
Awareness advanced	0.918	11
Guidance	0.911	5
Activism	0.824	5

The overall alpha is quite high for each of the variables denoting high internal consistency. We include all the responses to calculate the respective composite scores.

Regression results

Guidance as a variable can explain only 26.8% of the variance in the awareness of the shareholders. This further implies that there are other variables as well that will have an impact on awareness and guidance provided to shareholders is one of them as depicted in Table 7. It exhibits that guidance provided to the investors has a significant impact on the development of their awareness. The higher the guidance score achieved by the respondents, the higher is their awareness level. This goes to establish the fact that the regulators have an important role to play in spreading awareness among the investors. They need to take up a proactive role in educating the investors in order to protect them from the fraudulent practises and market malpractices.

Table7: Regression result between Awareness and Guidance		
	Standardized Coefficients	Sig.
	Beta	
(Constant)	24.061 (43.700)	0.000*
GUIDANCE	0.519 (12.583)	0.000*
a Dependent Variable: AWARENESS_Score* significant at 1 % level of significance		

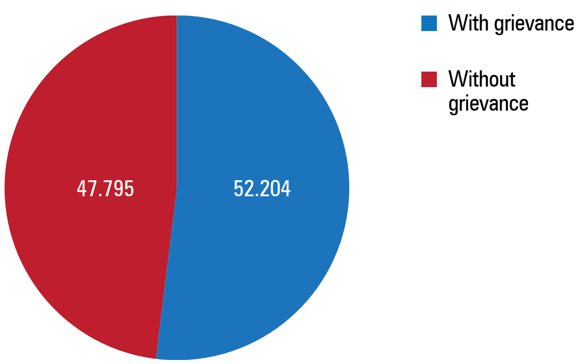
Awareness of shareholders explains 38.4 % of the variance in activism and there are other variables as well which have significant impact on activism, awareness being one of them. Table 8 reveals that awareness is a significant determinant of investor activism. Investors who have a higher level of awareness are more conscious of their rights. They are in a better position to protest whenever there is a violation of their rights. The findings prove that higher awareness level leads to more active investors.

Table8: Regression result between Activism and Awareness		
	Standardized Coefficients	Sig.
	Beta	
(Constant)	-.278 (-.707)	0.480
AWARENESS	0.621 (16.411)	0.000*
a Dependent Variable: ACTIVISM * significant at 1 % level of significance		

Grievance and its redressal

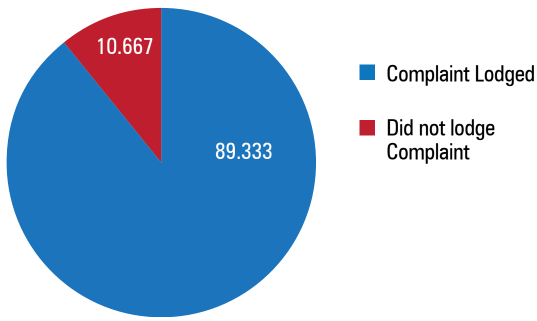
This section examines the grievances of the respondents and the initiative taken by them to lodge the complaint and get it redressed. It also analyses the redressal received by different respondents.

Chart7: Grievance of retail shareholders



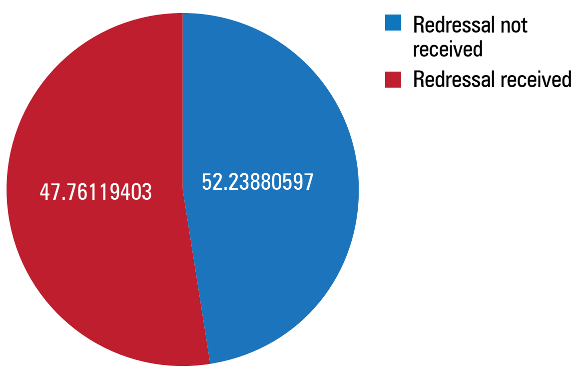
Out of the total sample of 431 retail shareholders about 52% have some form of grievance. This proves that despite the effort undertaken, the different regulators have not been able to completely curb the anti-investor practices prevalent in the market. The absence of exemplary punishment in the event of violation of rules or conduct of malpractices may be sighted as one of the major causes of this rampant approach.

Chart8: Grievances lodged by retail shareholders



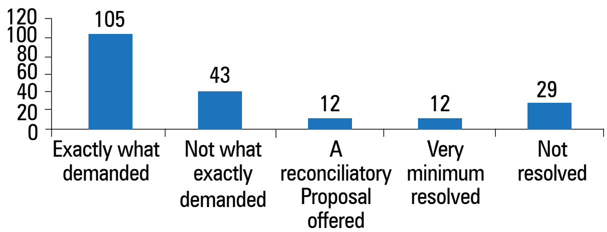
Out of the 52% of respondents who have grievance, about 89% have taken the initiative to lodge the complaint with the different grievance redressal entities. This highlights the success of the investor awareness and education programmes undertaken by the regulators. The advancement in technology has also made it possible for shareholders to lodge the complaint sitting at home, through the internet by following a few easy steps. The regulators have been successful in motivating the retail shareholders to lodge their complaint, by assuring them of relevant action at minimum cost.

Chart9: Redressals received by retail shareholders



The data collected from the 431 retail shareholders reveal that only around 52 % of the complaints got complete redressal. The statistics of the complaints getting partial redressal are presented below in Chart 10 according to different degree of redressal along with the data of complete redressal or no redressal.

Chart10: Level of redressal received by retail shareholders



Out of the total number of complaints lodged, 14% did not receive any redressal at all. In 34% of the cases partial redressal was received but the shareholders were not satisfied with the same. The primary task of the regulators is to prevent such incidents/ reasons of complaints to occur. They must be more vigilant and carry out exemplary punishment which will deter the wrong doers from engaging in. such malpractices. In extreme cases where such incidents do occur, the regulator must resolve them completely irrespective of the size of the complaint or amount of money at stake to restore the confidence of the retail shareholders.

The investors in the eastern region remain quite aloof even after they lodge complaint with the SEBI because they do not follow-up their complaints that much. This has been revealed from the conversation with most of the brokers in this region with an additional fact that awareness and educational workshops are also held lesser in number in this region. However, since SEBI does not provide region-wise data of the redressal of grievance it is difficult to draw any concrete conclusion in this respect.

Conclusion

In case of retail shareholders, protesting in groups is important for their voice to reach management. Further, to become more active than the others may be a genuine need for them. This further indicates that the small retail investors are susceptible. Actually, they need to protest in groups; otherwise there is a chance that their voice will be suppressed, given their minimal stake in a company. Here comes the role of investor associations. But where are these bodies in India? So, the regulators should be more alert and prompt to protect these investors and even come forward to promote investor associations which then will indirectly help the former to perform their role. The regulator will also have to monitor and actively guide the working of such associations so that they do not again become a club of the influential investors only.

The Investor Protection Fund (IPF) maintained at different stock exchanges, the Investor Education and Protection Fund (IEPF) as formed by the Ministry of Corporate Affairs by way of the Companies (Amendment) Act, 1999 and the Investor Protection and Education Fund (IPEF) formed by the SEBI should be utilised really for the benefit of the small shareholders for justifying the cause of their formation. Retail investors must be encouraged to exhibit greater activism. . A simple redressal mechanism is a step towards this objective. SEBI had already taken this step by forming the SCORES (SEBI Complaints Redress System) for speedy redressal of grievance. All grievances will be in the electronic mode, with facility for online updation of the action taken reports. The new system would also facilitate lodging of complaints pertaining to any regional SEBI office from anywhere. The new system would reduce grievance process time, as physical movements of the complaints would no more be required.

The role of the regulators in educating the investors is indispensable for aiding the investors to exhibit activism. Only if the investors are aware, they will spell out their grievance against violation of their rights. A proactive role has to be taken up by the regulators in educating the investors. They may hire a professional training institute or open a training cell of their own in different parts of the country, which will bring forth innovative learning methods to educate the investors. Merely printing some leaflets and publishing the investor guidance booklet is not enough, especially in a society where majority of the investors are dependent on the brokers for making investment decisions.

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Annexure I : Characteristics of sample investors taken in the study

Table9: Age of sample investors

Age group	Number of respondents
Below 30	128
31-40	154
41-50	86
51-60	50
Above 60	13

Table10: Income class of sample investors

Income group	Number of respondents
Below Rs.1,00,000	121
Rs.1,00,001 – 3,00,000	176
Rs.3,00,001–5,00,000	82
Above Rs.5,00,000	52

Table11: Occupation class of sample investors

Occupation	Number of respondents
Professional	53
Business	128
Salaried	194
Retired	22
Student	23
Home maker	11

Table12: Period of investment of sample investors

Period	Number
less than 6 months	77
6 months-1 year	100
1-2 years	118
2-5 years	81
more than 5 years	55

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FALLING RUPEE: YELLOW SIGNAL TO SLIP TO RED?

To stop the slide of the rupee, the time has come for the country to analyse its major imports and engage in reducing them and no stone should be left unturned in pushing exports

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Assistant Vice President-
Corporate Finance
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The current exchange rate of Indian **Rupee Vs US $** and a steadily depreciating rupee have left us bewildering, trying to know how this world of valuation of one currency against the other, operates. What goes wrong suddenly when the Local currency depreciates against a major international currency, is a subject worth reading and understanding.

The Rupee has depreciated against the US$ by over 33% since 2012 (Rs.45/$) and by 13% since May 2013 and touched a historical low of Rs.61.80 per US$ on 6.8.13. May be the worst is yet to come with projections of the Rupee plummeting to Rs.70 in the near term. A falling rupee may be good news for exporters in the short run. But for others and generally in the long run, a falling rupee hurts the economy with increased oil prices, increased input costs (electronics & automobiles), pushing current account services (overseas travel, tourism, education etc.) beyond reach. All these have the effect of pushing inflation in the local economy. With a falling economic growth, the falling rupee if not checked, will bring in investment down-grading by rating agencies such as S&P.

It is possible for a currency to depreciate against one particular currency while appreciating against another. There is no single formula or model that can predict rate of change in a currency against another over a future period nor can they explain the rate of change in the currency in the past.

An understanding of how exchange rates between countries are transacted is necessary to apprpriately deal with any slide in this critical parameter of performance of an economy.

Exchange rate system

The exchange rate is the rate at which one currency will be exchanged for another. It is the amount of Domestic Currency that is exchanged for one unit of foreign currency. Exchange rates are determined in foreign exchange market consisting of different type of buyers and sellers. Spot exchange rate means the current exchange rate for delivery today and forward exchange rate means the rate fixed today for delivery at future date. The buying rate is the rate (in terms of the local currency) at which the dealer in foreign exchange will buy foreign currency and selling rate is the rate at which forex will be sold by the dealer. The buying rate is always lower than the selling rate. The difference between buy and sell rates indicates the margin for the forex Dealer. The rates may vary for different forms of foreign currency. For example, cash, traveler's cheques, credit cards, etc

A country may follow the fixed exchange rate or floating exchange rate. Under the fixed rate system, the exchange rate is fixed by the government and remains valid until the currency is revalued again either upwards or downward. In the floating rate system, the exchange rate is set by market action and is bound to change dynamically with the real demand for and supply of the foreign currency. The demand for a currency may be either real or speculative.

There are several theories used on fixing the exchange rate between two countries.

Theories in the evolution of the exchange rate

A) Purchasing power parity: This theorem states that the exchange rate between two countries will be in equilibrium at

the level of purchasing power of the two countries. In other words, the exchange rate between two countries is the ratio of cost of making specific goods (or basket of goods) in the local currency to that of foreign currency. If cost of making a computer is say Rs.20,000 in India and cost of making the same in US is say $500, then the ideal exchange rate should be Rs.40/US$. If the rate is fixed arbitrarily at say Rs.50, then cost of computer in terms of USD will be 20000/50 = $ 400. At this ER, people in US will be interested to buy computer from India and save $100 per set (subject to duties & taxes, transportation costs etc.). This will increase demand for Rupee and strengthen rupee till it reaches original level of Rs.40/USD.

The problem with the PPP model is that it may be inappropriate to measure Exchange rate on the basis of identical goods for two reasons:

i) One country may have an inherent cost advantage (due to technology, productivity, quality etc.) against the other in producing these goods.
ii) The basis for determining the identical basket of goods to measure purchasing power may be erroneous.

In spite of limitations, the PPP model is more rational and currency of a country in the long run follow the pattern of purchasing power.

The limitations of PPP model may be removed if in place of basket of goods, certain Index like CPI (consumer price index) is used to determine the purchasing power of two countries and used as a deflator with reference to a base year.

Alternatively, the equilibrium in exchange rate between two countries can be ensured if the two Countries maintain a stable **Current account balance** and value of Imports against exports is either less or equal.

Another advantage of PPP model is that it provides the basis for identifying the over or under valuation of a Currency with its foreign counterpart over a point in time. The under or over valuation of a currency may be measured by Real Exchange Rate (RER): RER is the product of the nominal exchange rate (e) and ratio of price of goods (or basket of goods) in country A (P*) to price of goods in a country B (P).

i.e. RER = e*P*/P

To take the example of the price of a computer, RER will be determined as follows:

RER = 50*500/20000 = 25000/20000 = 1.25. It means that US dollar is overvalued by 25% against Rupee.(ie.Rs.10/- in the above example) and Real Exchange Rate should be 50/1.25 = Rs.40/- which is the original equilibrium rate.

B) Interest rate parity model: This model takes into account the rate of capital inflows into a country as a basis for predicting movement of Exchange rate between two Countries. The model is based on the premise that a country with comparatively higher real interest rate to another Country will attract more foreign capital and see appreciation in the value of their currency over a period.

r = R-I, where r = Real Interst Rate,

R= Nominal exchange rate and I = inflation rate.

This model attempts to find out the real interest (r) rate as Nominal interest rate (R) net of inflation rate (I). As per the theory, the appreciation in exchange rate will continue till:

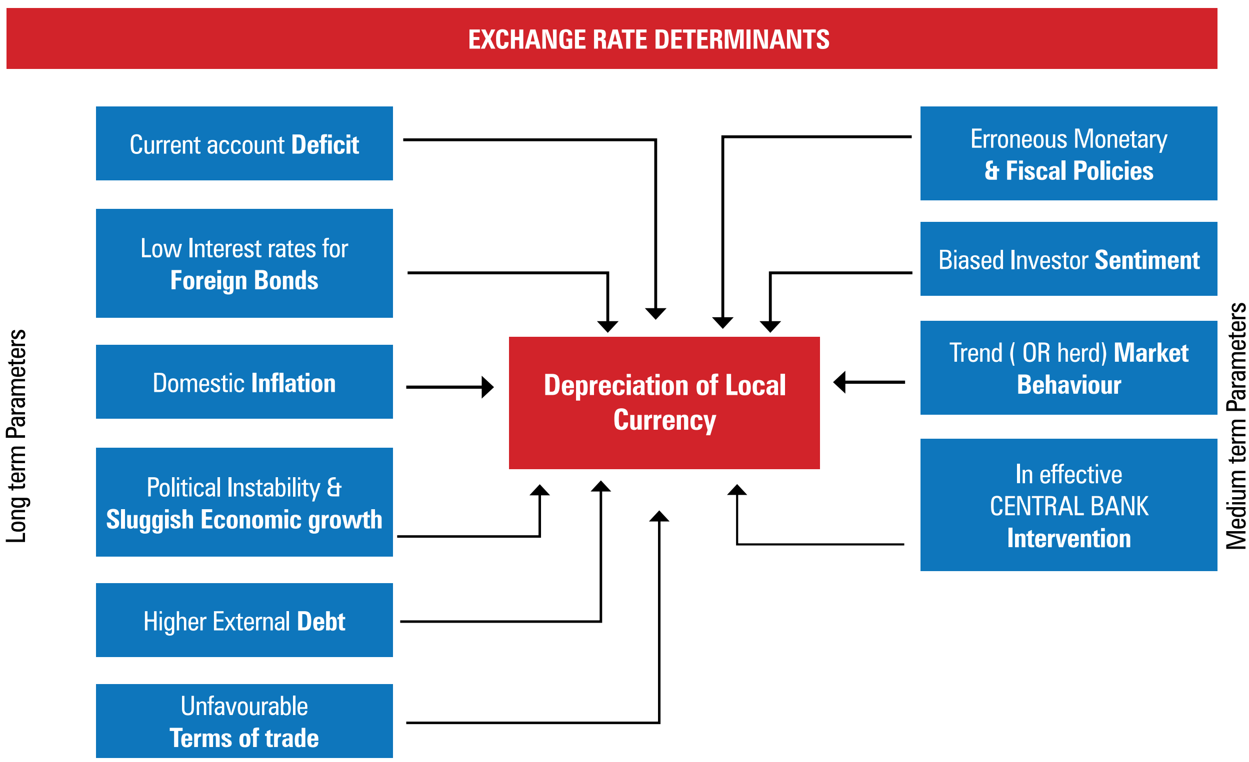
i) the Country no longer needs foreign capital at the current level of flow or

ii) that Real interest rate is comparatively lower than another country.

C) Demand and Supply: In today's global scenario, the rate of exchange with respect to one currency against other is determined by market forces and the rate is determined by the Demand for the currency and available supply. If Demand for a currency exceeds supply, the currency will appreciate and vice versa. The market rate may not be the equilibrium rate as determined under PPP model in the short run.

Determinants of exchange rate between two countries

Rupee started its journey against US Dollar in 1947(base year) with 1USD = 1 INR. In the last 65 years, it has trav-



elled in the negative direction and became so weak to quote almost Rs.62 against 1 USD. There are multiple factors that determine Exchange rate between two countries. The principal determinants are:

i) *Inflation:* A country with a higher inflation rate will lose their currency value against a country with relatively lower inflation rate. This is because cost of production of goods in the first mentioned country goes up against that of the other country. In our above example of price of computers, if due to inflation, cost of production of computer increases to say Rs.30,000/- in India and USA still maintains same cost(ie.US$ 500/-), the exchange rate should be pegged at Rs.60/USD

ii) *Interest rates:* If interest rate in a country is higher, it will attract foreign capital and thereby the value of local currency will increase. Interest rate is also a deterrent on inflation. But a higher interest rate will drive down growth or increase cost of production which in the longer run deteriorates the value of currency.

iii) *Current Account Deficit (CAD):* It is a condition reflecting excess of Imports of a Country over its Exports in terms of a specific Currency on account of Current account transactions (viz. goods services/interest and dividend / travel, tourism & health care). Higher imports and a widening CAD will weaken the home currency against the foreign currency. India is having a CAD problem for over a decade now. The Current account Deficit has touched the all time high of 4.8% of GDP. The CAD in India is believed to be the principal factor in the current sliding of INR against the US$.

iv) *Economic performance and political stability:* Strong economic performance and favorable government policies will attract more foreign capital compared to other countries and this will strengthen the local currency. India which showed strong average GDP growth @ 7%p.a for 5 years till 2010 is lagging behind with growth since then. Fear of foreign investor exiting from Indian market and investing in US market that shows signs of strong recovery, has added to the continuing sliding of Rupee against US $. A reason for recovery in US economy is the stimulus by US Federal Reserve, by infusing @ $ 85 bn. per month.

v) *Public debt:* The Country with higher foreign debt is likely to generate more cash outflows in form of interest and capital repayments over a period and unless these outflows are matched by an increase in Exports or further investments in foreign capital during that period, a stress will be created in rate of exchange driving down the value of local currency.

vi) *Terms of trade:* The exchange rate of a Country may also be influenced by major constituents of its exports and imports. If the basket of commodities and services that have a solid demand and appreciating value constitute the export portfolio compared to services and commodities imported by a country, the exchange rate of its currency to a foreign currency is likely to show strong trend than it is in a reverse situation. India has a adverse terms of trade situation with oil (outflow in 2012-13: 109bn.US $) and gold (outflow in 2012-13: 47bn.US $) as major imports.

Table1: Major Items of India's Balance of Payments (US$ Billion)

	Apr-Mar 2012-13 (P)			Apr-Mar 2011-12 (PR)		
	Credit	Debit	Net	Credit	Debit	Net
A. Current Account (1+2+3+4)	530.20	618.10	(87.80)	527.00	605.20	(78.20)
1. Goods	306.60	502.20	(195.70)	309.80	499.50	(189.70)
Of which:						
POL	60.00	169.40	(109.40)	56.00	155.00	(98.90)
Gold	6.5*	53.80	(47.30)	6.7*	56.50	(49.70)
2.Services	145.70	80.80	64.90	140.90	76.90	64.00
3. Primary Income	10.30	31.70	(21.50)	10.10	26.10	(16.00)
4. Secondary Income	67.70	3.30	64.40	66.10	2.70	63.50
B. Capital Account	1.60	1.90	(0.30)	0.90	1.00	(0.10)
C. Financial Account	472.00	386.50	85.40	497.10	416.40	80.70
D. Errors & Omissions (A+B-C)			2.70			(2.40)
P: Preliminary; PR: Partially Revised						
(Source: RBI)						

Financial assets

No longer are only goods and services traded between countries and or that the exchange rate is affected by the current account deficit or surplus. In addition to foreign bonds that give fixed returns, a country with a strong capital market may attract foreign exchange inflows. As is the equity capital market open to foreign investments, the forex money market in a country may also attract foreign money. Money invested in capital and forex market is known as hot money as the operators in this market can exit from the market overnight depending on their risk-return perception. Their operations have come to increasingly affect the volatility of the exchange rate between two countries.

US BUZZLE

There are many theories rationalizing the appreciation or depreciation of a currency. But there seem to be no theory that can explain upswing of a US Dollar in spite of its continued poor performance on a/c of CAD, economic growth, public debts etc. It remains a puzzle that the USA whose CAD has been widening much faster over decades has maintained its currency to remain stronger. The CAD of the US in 2005 alone is $740bn.which is 6.5% of its GDP. On an average, this deficit per annum is continuing even now till 2012 and the accumulated CAD of US is $ .20 trillion over 35 years (1977-2012) which is equal to 2/3(66%) of current GDP.

Reasons given for a never depreciating dollar are that:

i) the US is the most preferred investment destination and is the seat of highest intellectual deposit of the world,
ii) the US currency is the most preferred convertible currency and most reserved currency of the world (China being latest addition). No country in the world can think of the USD losing its value, as it will amount to diminishing its own wealth.
iii) The US have also politically manoeuvred over the years to keep their currency at the numero uno position (remember how the US de-pegged gold to the US$ in 1971).

As against this, India's CAD in 2012-13 was US$87.80 bn. which is 4.8% of GDP and US$78.2 bn.in FY 2011-12. Though India has had the persisting problem of CAD for nearly a decade now, the accumulated CAD position is hardly US$100 bn over the last 63 years (1949-2012) which is only 5% of the current GDP. See **Table1.**

S. Gurumurty, senior columnist, cautions that the US CAD problems are far more serious and the world may be virtually sitting on a ticking timebomb.

Currency crisis

A currency crisis may result from the following types of situation:

- If symptoms of a falling currency are not addressed effectively at the initial stages by revamping the Economy through long term Economic policies including fiscal and monetary policies or
- If fiscal and monetary policies failed to address the problem effectively, it may lead to evaporation of foreign currency reserves and such a situation will land the Country into a currency crisis.

A currency crisis situation is a painful incident for any Country as crisis engulfs the Country over very short period (often overnight) and people are caught unaware. It may be followed by massive unemployment, domestic prices and interest rates go through roof, banking system collapse, industries shut down, scarcity of essential food stuff etc.

1997 Thailand crisis

I was witness to a currency crisis in Thailand where I was working during 1996-2004. It all started in the middle of 1997. The Thai baht plummeted to 55 Baht per dollar from 25 Baht per dollar overnight. The crisis later spread to Indonesia, South Korea and other South East Asian economies.

The Thai economy was booming with foreign inflows and GDP growing @9% between 1985- 1996. Inflation was very much under control between 3-5%. The reason for the crisis were said to be that:

i) The Thai baht was overvalued and was pegged to US$
ii) Excessive spending by the Government by prompting banks to lend liberally for real estate and other activities and return were not matched with economic activity
iii) Further liberalization of financial market, led to private companies accumulating liberal US$ loans at presumably lower rates.
iv) By middle of 1996, exports (which were increasing @ 20% p.a. over the previous years) came to a halt with a high exchange rate.
v) Further, sudden down grading by Moody overnight, which had previously rated Thailand under investment grade increased pressure on investors to exit from the Thai equity market and the stock market collapsed.
vi) Speculative attack on the Thai baht

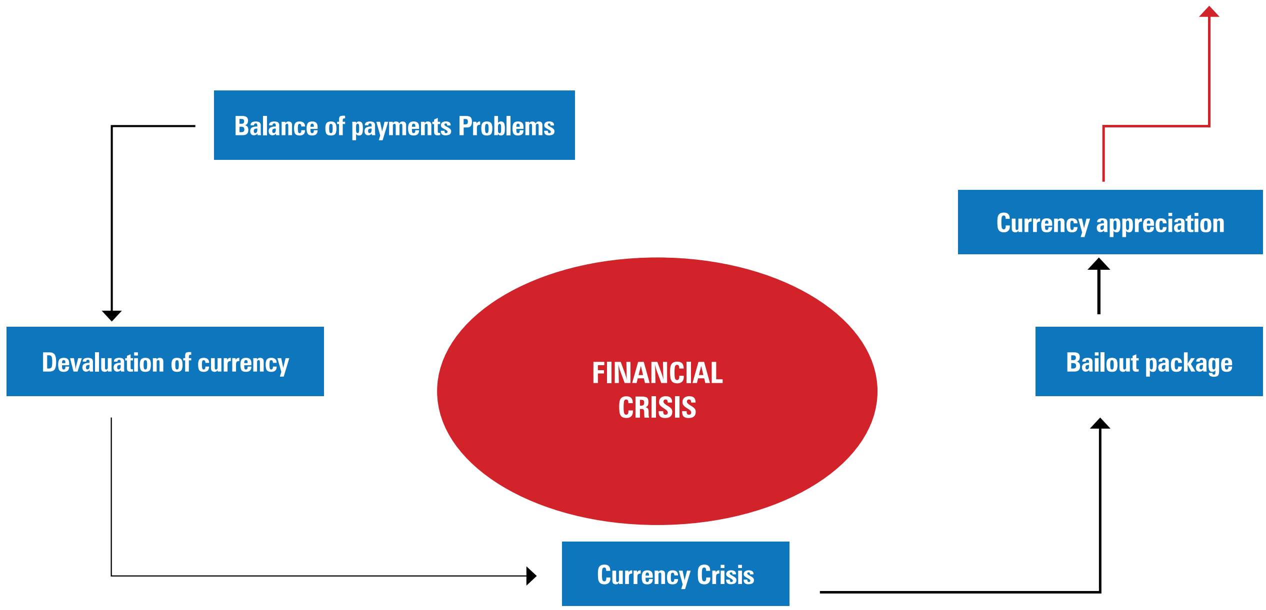
The forex loan by now touched 51% of GDP by end of 1996. With both capital and interest maturing for payment, foreign reserves dried up suddenly making imports impossible.

IMF which gave over $16 bn bailed out the Thai economy and by the end of 1998, Thailand was on the path to recovery from the year 2001.

1991 Financial crisis in India

India was committed to self-reliance and markets were pro-

CHART SHOWING FINANCIAL CRISIS AND BAILOUT



tected heavily prior to 1991 crisis with heavy import duty and restrictions on FDI's etc. By end of 1985, India had severe balance of payments problems. By end of 1990, problem worsened with forex reserves dwindling to US$ 0.6 bn. just sufficient to meet 3 weeks of its import bill. The public debt (caused by budgetary fiscal deficits) increased to 52% of GDP by end of 1990-91. The country had to airlift 67 tons of gold to IMF to secure a loan of $ 2.20 bn. Just after this crisis,

India felt that it cannot remain isolated from the world and eased its economic policy towards reforms and foreign investments. The currency was made floating so that it adjusts to market demand and supply and do not have to get exposed to sudden shocks as under the fixed exchange rate system. The rest is history.

2011 Greece crisis

Greece is a member state of the 12-country Euro currency that was floated in 2001. Greece's major GDP numbers depend on services and manufacturing. Greece is a victim of excessive debt at 150% of its GDP. The fiscal deficit was doctored at 5% of GDP where as it was actually 13% of GDP year on year. Greece which was already neck-deep in debt received further debt from countries like Germany and France. These countries who were receiving funds at a cost of <1% p.a from ECBs and federal reserves as part of easing liquidity drive post financial crisis of 2007, diverted these funds to Greece at interest rates like 4-5% Greece fell further deep with no way of coming out of the debt trap.

Financial crisis and its bail-out

From the above discussions, it can be seen how the cycle of financial crisis is blown over a country:

1) It starts with a balance of payments problems which is measured under i) current accounts ii) capital accounts
2) A country cannot have current account deficit if it has to retain its intrinsic value. Any country that has current account deficit (CAD) will lose its currency value much faster than a country which has vulnerability on cpital accounts.
3) To improve current accounts, the country should either increase its exports or reduce its imports.
4) A country should project the outflow required under capital payments and match the same through inflows on capital a/c or from surplus of its current account transactions.
5) As the balance of payments deteriorate, currency devaluation starts any delay in addressing the devaluation may result into currency crisis.

IMF (International Monetary Fund)

The final bail-out destination for any country fallen out of financial crisis has been the IMF.

IMF was started in 1945 as a fall out of great depression in 1930 and World War II in 1945. It has membership of 188 Countries. The stated objectives of IMF are as follows:

i) To promote international economic co-operation, international trade
ii) To promote international employment and sustainable economic growth
iii) To help maintain exchange rate stability of member countries
iv) To provide financial assistance to meet balance of payments needs
v) To reduce poverty in under developed Countries by providing financial resources and help managing such resources.
vi) To oversee the macro-economic stability of the member countries

Countries operate in an imperfect financial market and often get into financial turmoil. As a result, a country may not be able to carry on regular economic activities which have an impact on livelihood of people in that country.

The condition for obtaining financial assistance from IMF is that of adherence to specific policies that will have the effect of diverting the course of economy and enable the loan from IMF to be re-paid over a period. There is no collateral required for the loan received from IMF and the loan may be either interest free or interest at subsidized rate.

The conditions for structural adjustment include:

1) Increasing exports and reducing unnecessary imports by lifting restrictions
2) Cutting down on Government expenditure and programmes that have no economic yields.
3) Containing fiscal deficits and removing subsidies
4) Devaluation of the Currency
5) Enhancing Governance and fighting corruption.
6) Disinvestments in state enterprises and privatization of govt-controls

One of the complaints against IMF is that conditions imposed by them for structural adjustment reflects the ideology of Western countires.

Members' obligations as set out In the Articles of Agreement of IMF

i) To make membership contributions periodically towards their quota
ii) To refrain from currency restrictions
iii) To abide by code of conduct under the Articles
iv) To provide national economic information.

IMF is led by Managing Director under an Executive Board consisting of 24 Executive Directors. The EDs represent all 188 countries. Only 8 countries with larger economies are allowed to appoint their own EDs while the remaining 16 Directors represent constituencies of not less than 4 - 22 countries. The Countries that have their own EDs are US, Japan, Germany, UK, France, China, Russia, and Saudi Arabia.

The voting power of each member-country is determined by its basic vote (which is 5.502% of the total votes) plus one additional vote for every 100000 SDRs of its allotted quota.

The resource pool of the IMF is contributed by members based on quota which in turn is determined by their relative position in the global economy. Thus developed countries are bound to contribute more to the IMF kitty than any under-developed country. But it is a fact that user of these funds are mainly the under developed countries because of their fragile resources and ineffective currency management.

Conclusion

India has dreams of becoming a superpower. As a vast nation with demographic and physical resources, its dream is very genuine and a near possibility if the country pursues its path with required aggression and effective financial management. The country cannot continue to have fiscal deficit in their budgets and current account deficits in its balance of payments. The time has come for the country to analyse its major imports and engage in reducing them. No stone should be left unturned in pushing exports. If the country fails to do so at this juncture, history will term the country as 'failed nation'.

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NATIONAL PENSION SCHEME – PFRDA BILL 2011

The introduction of the new scheme has hurt the age-old post-retirement social security to government employees who joined service on or after 1 January 2004

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A retirement plan is an arrangement to provide people with an income or pension during retirement when they are no longer earning a steady income from employment. In a changing context, retirement plans may be set up by employers, insurance companies, the government and other institutions such as employers' associations or even the Trade Unions. The retirement plans are more commonly known as Pension Schemes in some countries while in other countries these are known as Superannuation Plans.

A scheme of pension payment to the employees constitutes a major component of social security in old age. In the Indian context, it has been described differently under different circumstances. There are various judicial pronouncements which considered pension as 'property' within the meaning of Article 31(1) of Indian Constitution which provides that no person shall be deprived of his property save by the authority of Law and any interference shall be construed as a breach of Article 31(1). By an amendment to the constitution in the year 1977, Article 19(1)(f) of the constitution of India was deleted thereby the Right to Property no longer continues as a fundamental right. However, the Right to Property does continue to be a constitutional right. Consequently, under 300A the said amendment has expanded the power of the states to appropriate property for social welfare purposes. In other words, the amendment bestowed upon the Indian Social States a licence to indulge in legal 'plunder'. It is a classic example where law has been perverted in order to make plunder look just and sacred to many consciences. In another judicial pronouncement, the judges gave a strong definition of pension while holding that the pension is not a bounty payable on the sweet will and pleasure of the government and that on the other hand, the right to pension was held as a valuable right vested in a government servant.

Broad classification

The pension schemes in India are broadly classified into two categories – (1) Defined Benefit Pension Scheme & (2) Defined Contribution Pension Scheme.

It would be appropriate to understand the meaning and context of both the categories. Such understanding will help appreciate the distinctions of both the schemes and their implications.

(1) Defined Benefit Pension Scheme

There are two basic features of this scheme viz., the funding which is done by the employer and the quantum of pensionary benefit to the employee is defined as certain percentage of last pay drawn factoring for the number of years of service with the employer. Thus an employee is assured of a regular fixed income after retirement from the service. This scheme provides an automatic hedge against the fluctuations in the yield on pension fund. It is therefore considered as a superior scheme from the employee's standpoint. The pension scheme in India prior to 01.01.2004 was a 'Defined Benefit Pension Scheme'. This scheme was exclusively funded by the employer.

(2) Defined Contribution Pension Scheme

As the name suggests, under this scheme, the contribution to the fund is defined and not the benefits to the employees. The contribution to the funds is made by an employee as a specified percentage of pay (+Dearness Allowance) and the employer makes the matching contribution. The benefit of this pension scheme to the employee is not defined. The pension after retirement becomes stable not as any specific percentage of the last drawn pay but it is determined on the basis of the amount of money contributed to the fund and the performance of the investment and the vehicles utilised. This scheme is also known as National Pension Scheme. It is a contributory, fully funded, privately third party custody of funds and assets based on individual accounts. This scheme has come into force in India with effect from 01.01.2004 when it was implemented by the government in all its Departments and Undertakings. The Union Territories and 28 State Governments followed suit by notifying the National Pension Scheme. 24 States have already signed agreements with the intermediaries of NPA architecture appointed by PFRDA for carrying forward the implementation of the scheme.

Pension Fund Regulatory and Development Authority (PFRDA) Bill

The government appointed Dhirendra Swaroop as the Interim Regulator to monitor the National Pension Scheme in 2004. The current Chairman of PFRDA is Yogesh Aggarwal. With a view to creating a legal and constitutional framework, the government introduced Pension Fund Regulatory and Development Authority (PFRDA) Bill in Parliament in 2005. The Bill essentially sought to give statutory power to the Interim Regulator constituted by an executive order in 2003. This Bill was referred to the Standing Committee of the Parliament on Finance for its consideration and to suggest suitable amendments to the provisions contained in the Bill. It did not see the light of the day and hence a modified Pension Fund Regulatory and Development Authority (PFRDA) Bill was again introduced in Parliament on 24.03.2011. In the meantime, government also notified "SWAVLAMBAN SCHEME" during the year 2009-10 to extend the coverage under National Pension Scheme to the workers of the unorganized sector from 01.05.2009. With a view to encouraging the workers of the unorganized sector to enroll themselves under Swavlamban Scheme, the Ministry of Finance issued guidelines of the scheme alongwith incentive to those who join the scheme in first two years ie., year 2009-10 & 2010-11. As a part of incentive, the government announced that it would contribute Rs.1000/- per annum for the year 2010-11 and for next three years to the pension accounts of those who join the scheme in 2009-10 & 2010-11. The rationale behind such contributions from the government was to recognize the faith reposed by the workers of unorganized sector in National Pension Scheme. The minimum contribution by the subscriber to the SWAVLAMBAN SCHEME has been fixed at Rs.1000/- per annum and maximum of Rs.12000/- per annum.

In the event of a subscriber defaulting in making the minimum amount of contribution in any year, his account would become dormant. The subscriber would have to pay a default penalty of Rs.100/- per year of default along with the minimum contribution in default. It is also provided that the dormant will be closed if the account value falls.

This Bill was also referred to the Parliamentary Standing Committee on Finance. The Parliamentary Standing Committee suggested amendments to some of its provisions and its key suggestions are as under:

- Minimum assured return to the subscribers in terms of the scheme notified by the competent authority.
- Withdrawal from the fund from the subscriber for which the purpose, frequency and limit as to be specified by the Regulator.
- Foreign Direct Investment (FDI) be capped at 26% or as may be approved for insurance factor – whichever is higher.
- One of the Fund Managers should be from Public Sector.
- Establishing vibrant Pension Advisory Committee consisting of representatives from all major stake holders to advise PFRDA on matters of framing the regulations under PFRDA Act.

In Sivagangai district of Tamil Nadu, there is a heritage village called 'Kanadukathan'. The village is a tourist attraction and the Palace of 'Raja' being the main attraction, has been converted into a museum. One of the important things among others which can be seen in the Palace is a powerful quotation - Earn, Save and Invest. This signifies the cherished philosophy of the family of the Raja. This is also the underlying principle of the National Pension Scheme which is designed on the principle of – You Save While You Earn.

The scheme is designed mainly to cater to the people with regular income. The Lok Sabha passed PFRDA Bill on 04.09.2013 by a division wherein 131 Members of Parliament (MPs) supported the Bill while 10 voted against. In a House of 542 MPs, merely 141 participating in the voting is reflective of the indifference of the part of law makers and it is abysmally pathetic. These numbers in Rajya Sabha were 115 in favour of the bill and 25 against which included members from left parties and Trinamool Congress. During the debate in Rajya Sabha, the Finance Minister responded by saying that some of them have legitimate concern which have to be addressed. He requested the members that since the Bill has travelled for 9 years, let us give the Bill the honour it deserves and pass it. Thus in a subtle arrangement, the ruling party was able to get the Bill passed with a FDI cap of 25% which has been linked to the FDI cap in the Insurance Sector. It is well known that the Union Cabinet has already cleared the Insurance Bill which seeks to raise the FDI cap in Insurance Sector from 26% to 49%. In such a perspective, it is only a matter of time that the FDI cap in pension sector shall also stand raised to 49% with the passage of Insurance Bill by the Parliament. This has been made to appear as a concession over the earlier draft Bill which had kept the option of FDI cap outside the purview of the Legislation with an understanding that the FDI cap could be raised through an executive order. Other amendments to the draft Bill included providing the subscriber an option of investing the fund in the schemes that promised minimum assured returns. Despite the Finance Minister saying that it would not be possible to give an undertaking that the assured returns will be higher or lower than the rates offered by the Employees' Provident Fund Organisation (EPFO). But the Finance Minister added that the money could be invested in government Securities like Central & State Government Bonds and also in other investment avenues depending on the risk taking capacity of the subscribers to the scheme. During the debate in the Lok Sabha, Bhratruhari Mahtab of Biju Janta Dal had sought amendment to the extent that the government assured minimum returns equivalent to at least the rate of interest provided by EPFO and the Finance Minister was responding to this suggestion. When the proposed pension fund regime comes into force, it will make it mandatory that atleast 40% of the subscribers' money is annuitized. The approved Bill has also provided to allow the subscribers to withdraw upto 25% of their contribution from their Tier-I account as an incentive to join the National Pension Scheme. The modalities about the number of withdrawals, its purpose and the frequency of such withdrawals will be decided by PFRDA. It is expected that the withdrawals may be allowed for the purpose of terminal illness and to meet the requirement of purchasing one dwelling unit. The corpus in subscribers' accounts can be held under two Tiers.

- Tier-I Account will have the minimum stipulated amount contributed by the subscribers and also the matching contribution by the employers.
- Tier-II Account will have voluntary contributions over & above the stipulated minimum made by the subscribers without there being any matching contribution from the employers.

However, the management of funds under Tier-II Account will be on similar lines as applicable to the management of funds under Tier-I Account. The withdrawals from Tier-II Account shall be permitted to the extent of 100% of funds available in Tier-II Account.

Section 44 of PFRDA Bill provides for constituting Pension Advisory Committee by notification and this Committee shall advise PFRDA to frame the Regulations under the Act. The proposed law will also give statutory power to penalize and regulate the National Pension Scheme to the Regulator who has been regulating the scheme since 01.01.2004. The New Pension Scheme fund is said to be having 52.83 lac subscribers and a Corpus of Rs. 34965 crore as on 14.08.2013. The PFRDA Bill has also been passed by Rajya Sabha on 06.09.2013.

The PFRDA Bill was a long pending law and in a way, an important economic law which shall pave the way for the establishment of the authority to promote old age income security, to establish, to develop and to regulate pension funds to protect the interest of the subscribers to Pension Fund Scheme.

The National Pension Scheme (NPS) is different from the earlier pension scheme as it has defined contribution, while the earlier one had defined benefits. The NPS has been extended to all the Central Government employees (except armed forces) who have joined the services on or after 01.01.2004. The advocates of Defined Contribution Scheme argue that each employee has the ability to tailor the investment portfolio according to his or her individual needs and financial situation. He will have the choice of how much to contribute if he wishes to join the scheme as far as non-government sector employees are concerned. However, the opponents of this scheme argue that such an arrangement could also hinder some workers who might not possess the financial capability to choose the correct investment vehicles and those who may not have the discipline to voluntarily contribute to retirement accounts. This debate relates to the discussion currently on in the United States where many Republicans favour transforming the social security systems at least in part to a self-directed investment plan. It would be inappropriate for us in India to follow such transformation as the level of awareness and financial savvy of the workers in India may not be of the order of the workers of the United States. For us a decent pension scheme means a post-retirement life with dignity and not just scraping through by relying upon the uncertainty of yield on the pension fund under PFRDA.

Management of funds under NPS/PFRDA

The PFRDA provides the pension fund to be managed by independent Fund Managers. By way of an amendment suggested by Parliamentary Standing Committee on Finance, one of the Fund Managers should be from the public sector. Currently there are 8 Pension Fund Managers in India. These Fund Managers will have to quote their own fee to the subscribers – subject to a ceiling of 0.25%. This is expected to enable them to evolve economically viable models for their operations. It will also provide some degree of competition unless they join each other to form an unethical cartel.

In view of the amendments carried out in the draft Bill, it is imperative for an organisation to entrust the management of Pension Fund to a group of Fund Managers which must include at least one Fund Manager from the public sector, meaning thereby that one out of the first 3 Fund Managers listed above has to be selected for managing the funds. It leaves an open question about the amount of fee quoted by the bidding Fund Managers and in the event of the fee quoted by Public Sector Fund Manager being higher than those from the Private Sector, how would the selection of a costlier Public Sector Fund Manager would be viewed by the Regulator and how far such an arrangement would protect the interest of the subscribers ? The Bill also provides that the Fund Managers will endeavor to earn market based returns by investing in several investment options aimed at building subscribers' confidence.

Modalities

Even though the government introduced National Pension Scheme from 01.01.2004, the pension contributions of Central Government employees covered by NPS are being invested by the professional Fund Managers in line with the investment guidelines of the government as applicable to non-government provident funds. The subscribers are required to exercise option for choosing the investment class. The PFRDA provides for the following 3 investment classes:

(1) **'E' Class (Equity Market Investments):** The Fund Managers would invest in this class of securities primarily in Equity Market instruments. They would invest in Index Funds that replicate the portfolio of either BSE Index or NSE – NIFTY FIFTY Index.

(2) **'G' Class (Government Securities):** The Fund Managers would invest in this class of securities viz., Government of India Bonds and State Government Bonds.

(3) **'C' Class (Credit Risk Bearing Fixed Income Instruments):** The Fund Managers would invest in this class of fixed income securities other than Government Securities. The investments shall also be made in liquid funds of Asset Management Companies regulated by SEBI, fixed deposits of Scheduled Commercial Banks having Capital Adequacy Ratio of 9% or more and Non Performing Assets Ratio not exceeding 5% in the previous year. The Fund Managers may also invest in Debt Securities with maturity of not less than 3 years' tenure issued by Body Corporate including Scheduled Commercial Banks, Public Financial Institutions (PFIs), Credit Rated PFI/ PSU Bonds, Credit Rated Municipal Bonds and Infrastructure Bonds. At least 75% of the investment under this category should be into the Securities which are having **'investment grade ratings'**.

It would be more appropriate if the investments in Public Sector Banks and the PSU Bonds are shifted to 'G' Class investments by suitably modifying the percentage of investment in the respective categories. Keeping the safety and security of subscribers' fund in view, it is advisable to provide for a maximum of 10% of the funds to be invested in 'C' class Securities. It would greatly mitigate the risk of portfolio impairment.

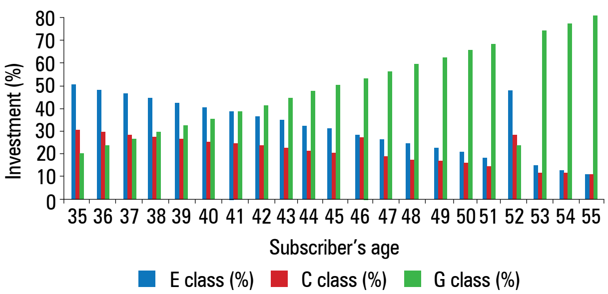
If a subscriber fails to make a choice of investment in the above investment classes, the Pension Fund Manager would be free to invest the funds as per the guidelines of PFRDA under auto choice (a pre-determined portfolio) route. The investment pattern under the auto choice route is shown in the table given below:

Till the Subscriber attains the age of	Investment in 'E' class (%)	'C' class (%)	'G' class (%)
35	50	30	20
36	48	29	23
37	46	28	26
38	44	27	29
39	42	26	32
40	40	25	35
41	38	24	38
42	36	23	41
43	34	22	44
44	32	21	47
45	30	20	50
46	28	19	53
47	26	18	56
48	24	17	59
49	22	16	62
50	20	15	65
51	18	14	68
52	16	13	71
53	14	12	74
54	12	11	77
55	10	10	80

It can be seen from the above table that the investment up to the age of 35 is high in equity class of investments which signifies that the risk taking capacity of the subscribers at younger age is high. It gradually decreases with growing age to ensure that as a subscriber grows older, the investment in high risk Securities is brought down. Similarly the investment in 'G' class securities at younger age of 35 is low at 20% and it goes to 80% by the time the subscriber attains the age of 55. It is thus clear that the investment pattern under the NPS has made an attempt to balance the risk-return matrix to lend reasonable security to the subscribers' fund. The scheme also provides discretion to the Fund Managers for a +/- 5% of the above specified weights for the purpose of balancing the portfolio. The withdrawals under NPS attract tax under Exempt-Exempt-Tax (EET) meaning thereby that the contributions and returns are exempt from tax upto a maximum of Rs. 1 lac per annum forming part of the exempted tax basket whereas the withdrawals from the scheme would be taxed as normal income.

The following graphical representation of the age-investment pattern of the subscribers' funds under the NPS also makes it clear that in the early stages of the subscribers' life, when the risk capacity is more, the portfolio is more tilted towards relatively risk bearing investments and after the age of 35, it starts gradually shifting from more risk bearing to more secured investment, thus promising better assured returns.

Auto Choice Investment Pattern

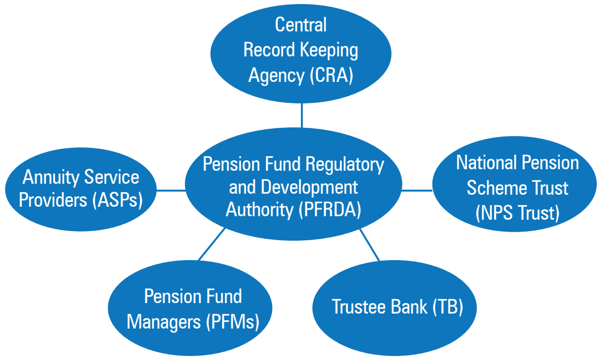


The NPS also provides that if a subscriber withdraws from the scheme before attaining the age of superannuation (60 years), it is mandatory that he invest 80% of the amount in his pension account in annuity scheme and is allowed to withdraw the remaining 20% of the corpus. However if he continues in the scheme upto the age of 60, he is allowed to withdraw the entire amount except investment in annuities at least to the extent of 40% of the corpus in his pension account.

The Pension Fund Managers are prohibited from leveraging their portfolio and hence shall not be permitted to borrow against the Pension Fund of the subscribers. Similarly the Fund Managers will also be not allowed to create any kind of charge on the Securities created out of the investments made from the subscribers' funds. There would be restrictions even on the quantum of holding cash which should not exceed 10% of the assets of the scheme and should preferably be held in the form of Treasury Bills. It is expected that the Pension Fund will effectively invest and manage the huge Corpus that belongs to large number of subscribers. The defined powers, duties and responsibilities of the Fund Managers would help the subscribers of National Pension Scheme to reap the maximum benefits.

NPS infrastructure

PFRDA has provided appropriate infrastructure for the successful implementation of National Pension Scheme (NPS). The role functions of Participating Entities have been laid down by PFRDA. It would be appropriate to briefly understand the NPS infrastructure with the help of following diagram:



Central Record-keeping Agency

The scheme provides for one or more Central Record keeping Agency which will maintain the record of the subscribers and inform them periodically about the past performance of the funds and regular Net Asset Values (NAVs). It will help the individual subscribers to make the choice of investment in different classes of investments or even shift from one Pension Fund Manager to another. CRA will allot a Permanent Retirement Account Number (PRAN) to each subscriber of NPS. CRA will also monitor member contribution and instructions as it is a core components NPS infrastructure which is critical for its successful operationalization. National Securities Depository Ltd (NSDL) and Stock Holding Corporation of India Ltd., have been appointed as the Central Record keeping Agencies for National Pension Scheme.

NPS Trust

NPS Trust was registered on 27.02.2008 with a view to take care to the assets and funds under NPS in the interest of subscribers. It is managed by the Board of Trustees. G N Bajpai is appointed as the Chairman of the Board of the Trustees. Other Trustees are from the field of Finance, Law, Investments etc. The Trust carries out quarterly review of NPS Fund Managers' performance and suggests improvements, if necessary.

Trustee Bank

The Bank of India was appointed as the Trustee Bank at the initial stages to facilitate remittance of subscribers' contribution into the bank account through RTGS/ NEFT. The PFRDA has replaced this Trustee Bank on 30.04.2013 by appointing Axis Bank as the new Trustee Bank to take over the functions of Trustee Bank to NPS from 01.07.2013.

Pension Fund Managers

Pension Fund Managers are the critical component of PFRDA infrastructure. They are vested with the responsibility of managing the pension funds of the subscribers in an efficient manner to ensure maximum return on the corpus to enable better pensionary benefits to the individual subscriber. The subscribers can choose the Pension Fund Managers out of the following -

1) SBI Pension Fund Pvt. Ltd.
2) UTI Retirement Solutions Ltd.
3) LIC Pension Fund Ltd.
4) Kotak Mahindra Pension Fund Ltd.
5) Reliance Capital Funds Ltd.
6) ICICI Prudential Pension Funds Management Ltd.
7) HDFC Pension Management Company Ltd.
8) DSP Black Rock Pension Fund Managers Pvt. Ltd.

It is interesting to note that the yield/return on the corpus managed by Pension Fund Managers during the year 2011-13 had been quite attractive in the range of 13-14% per annum.

Annuities Service providers

The Annuities Services are the domain of insurance sector except that the banks were permitted to manage the pension funds of their employees by amending the statute at the time of introduction of pension scheme for the bank employees in 1995. Annuities Service Providers play a vital role in determining the quantum of pension to the subscribers. Each subscriber is expected to decide the amount of funds out of the corpus to be utilized for purchase of annuities at the time of retirement subject to the minimum limit specified by PFRDA. The PFRDA has identified the following Annuities Service Providers for this purpose:

1) Life Insurance Corporation of India
2) SBI Life Insurance Company Ltd.
3) ICICI Prudential Life Insurance Company Ltd.
4) Bajaj Alliance Life Insurance Company Ltd.
5) Star Union Dai – Ichi Insurance Company Ltd.
6) Reliance Life Insurance Company Ltd.
7) HDFC Standard Life Insurance Company Ltd.

The technology will also play an important role in successful implementation of National Pension Scheme. NPS will have a provision for web-enabled transparent mechanism allowing the subscribers to monitor their investments and return on the corpus. The choice of Pension Fund Manager and investment would also rest with the subscribers. The subscribers will have the liberty to switch investment options as well as pension fund managers. The facility for seamless portability and switch between the pension fund managers will be available to enable single pension account throughout the saving period of the subscribers.

Conclusion

The National Pension Scheme was originally conceived with a view to provide coverage to the private and unorganised sectors. However, even before making an attempt to cover these sectors, the NPS was introduced for government employees thereby dispensing with the Defined Benefit Pension scheme. Inasmuch as the existing pension scheme for the government employees is more beneficial and superior from the employees' point of view, the introduction of the new scheme has hurt the age-old post-retirement social security to government employees who joined the service on or after 01.01.2004 by causing a serious impairment of their pension benefits. In terms of cost-to-company (government), the Defined Benefit Pension scheme entails an outlay of 38-40% of the basic pay drawn by the employee whereas NPS entails a cost of 10% of basic pay + DA which on an average would work out to be about 15-17% of the basic pay. The vast difference between the outlay of funds by the employers under both the schemes signifies the impairment of pension benefits in respect of new employees who have joined the services on or after 01.01.2004. Such an awareness is causing shimmering discontent amongst those employees who have joined the services of Central Government, State Governments, Union Territories, Public Sector Banks, Public Sector Insurance Companies (both General & Life), Central & State Public Sector Undertakings/Enterprises after introduction of National Pension Scheme. The scheme has earned kudos from the Confederation of Indian Industries which has welcomed the passage of PFRDA in Parliament. However, on the contours of all these developments, the employees of Tamil Nadu State Government under the banner of Tamil Nadu Government Employees' Association (TNGEA) staged a demonstration on 17.08.2013 at several Taluk and District Headquarters seeking the scrapping of the National Pension Scheme as the scheme was against the welfare of the employees. Such developments and the response from the government need to be watched cautiously in the near future. MA

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GOVERNMENT POLICIES TOWARDS PRIMARY AGRICULTURAL CO-OPERATIVE SOCIETIES IN INDIA

This study examines the impact of various phases of Government policies on the development of Primary Agricultural Cooperative Societies

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The history of cooperative credit society among all other cooperative societies is very old In our country .The cooperative movement was started in 1904 .It was the best agency to cater the cheapest loan to the cultivators at that time .There are two types of loans – short term and medium term provided by the societies. The rate of interest on loan was low. (R.K Lekhi & Joginder Singh, 2010)

The cooperative societies have made a significant role in the economic progress of Tamil Nadu, Karnataka, Punjab and Himachal Pradesh due to the direct help and encouragement of the Government and national banks respectively. Out of the total credit, the cooperative credit societies has gone from 3.1Percent to 5.5 percent to the cultivators in 1960-61. During 1995-96 nearly 88000 Primary cooperative Societies provided Rs 6461 crore consisting of short and medium term loans . In 2005-06, the total loan has increased to Rs 29471 crore (R.K. Lekhi & Joginder Singh 2010).

Objectives and scope of the study

The object of this papers is to study the impact of various phases of Government policies on the development of Primary Agricultural Cooperative Societies (PACS).

We attempt to identify some of the important steps taken by the Government at different times. We do not directly address the changes of PACS for the development of agriculture after implementing the policies in different phases. our study is primarily motivated by our desire to highlight the consciousness of the Government for developing agriculture of our country through Primary Agricultural Cooperative Societies.(PACS) The paper is organised as follows:

Section 1 deals with the report of the Linlithgore Committee.

Section 2 deals with the report of the Gadgil Committee

Section 3 deals with role of Reserve Bank of India .

Section 4 reveals the report of All India Rural Credit Survey Committee.

Section 5 highlights the report of the Panth Committee .

Section 6 shows the report of the TaskForce on revival of rural cooperative credit Institutions .

Section 7 reveals the credit to agricultural sector by other financial organisation .

Section 8 observation and conclusion .

Government policies for PACS

The Government has taken various steps at various times for the development of Primary Agricultural Cooperative Societies. Because the Primary Agricultural Cooperative Society is the only agency to provide Government loans and assistance to the people who live in a very remote area, It is one of the important ways to develop the rural economy of our country.

Agricultural Commission

For this purpose the Government. of India set up Agricul-

A SURVEY... SHOWED THAT COOPERATIVES COULD COMMIT ONLY JUST 3.3 PER CENT OF THE TOTAL CREDIT REQUIREMENTS OF FARMERS, WHILE THE MONEY LENDERS ACCOUNTED FOR 93 PER CENT

tural Commission in 1926, headed by vice- roy Linlithgore. The commission was set up to investigate the matters and to provide necessary recommendation regarding different aspects of Indian agriculture. In 1928, the committee provided certain important recommendations on Cooperatives related with Indian agriculture2.(Asim Roy, 2005) Some of the recommendations (Asim Roy, 2005) are

1. To publish unplanned development of the cooperative movement during 11 years starting from 1918 to 1928.
2. To set up and develop the cooperative Societies for the development of agriculture.
3. According to the Commission, the Cooperative movement had not been succeeded due to lack of proper education, observation and inspection. For the development of the cooperative movement, it is the task to the Primary Agricultural Cooperative Societies as well as Government to provide education to the members and employees of the cooperative societies.
4. The Agricultural Commission made recommendations to provide responsibility about different aspects like inspection, route direction of the cooperative societies on cooperative union following the examples of European Countries.
5. It also recommended that the general cooperative credit society is to create and deposit fund which is to be paid for the commitment of cooperative society. The mortgage security should be accepted.
6. The commission highlighted about the control of Mohajoni Business.
7. To set up cooperative marketing where one producer is the small and weak.
8. It also recommended that cooperatives not only to solve the problems of the cultivators, but also to provide loans, raw materials, marketing facilities to rural technical persons.
9. To take steps against the excess domestic animals and shortage of food for those domestic animals.
10. The commission had given a special emphasis on appropriate research for the interest of the development of Indian Agriculture.

On the basis of the recommendation, the Imperial Council of Agricultural Research was established. The function of this organisation was the co-ordination of research of agriculture including medical treatment of animal and help the related agricultural department of the provincial Government. On the basis of recommendation, Land Mortgage Cooperative Bank had been established in Madras first and then Mumbai (Asim Roy, 2005).

Gadgil Committee (1944-1945)

An Agricultural Finance Subcommittee was formed on 12th September, 1944, headed by D.R. Gadgil. It was the duty of the committee to provide recommendation regarding how to enlighten the loan burden of the farmers and to provide short and long-term loans to the farmers. In 1945, the committee made a comment on its report. The comment was "we are in general agreement with the view that the spread of cooperatives would provide the best and most lasting solution for the problem of agricultural credit in particular and those of rural economy in general." It anticipated that full agricultural credit would not be feasible and for this purpose, it also recommended to set up Agricultural Credit Corporation. (Asim Roy, 2005)

Though the movement was started by the initiative of the Government , but the Government did not much help and support to the cooperative societies .In 1947-48, Rs per 100 working capital, the Government loan was Re 1 and 87 paise (Asim Roy, 2005)

Role of Reserve Bank of India

Since the inception in 1935, the Reserve Bank of India (RBI) has been playing an important role in supplying credit to the agriculture, by strengthening credit organization so that the organization can cater to the special requirements of the poorer section of the rural population. At the early stage, the RBI did not provide much for agriculture, in spite of the fact that a distinct department viz. the Agriculture Credit Department, existed. The bank provided certain amenities to the agricultural sector. As far example, it provided credit to State Cooperative Bank against Government. Securities and agricultural bills, maturing within 9 to 15 months. Rediscounting facilities were available for commercial Banks. These facilities were also expanded to see to cooperative banks. Besides, the rate of interest charged by the RBI regarding supplying credit to cooperative societies was low. The conditions of repayment of loans are not so difficult. It also provided concessional remittance facilities to cooperative banks. While these amenities were substantial, the amount of credit Banks provided by the RBI was very unimportant till 1949 when it was nationalized. As far example, in 1949-50, the total credit received by the state cooperative banks from the RBI amounted to a small sum of Rs. 2.7 Crore. (A.N. Agarwal, 2010)

All India Rural Credit Survey Committee (1951-54)

A survey of rural credit in 1950-51 revealed that cooperatives could commit only just 3.3 per cent of the total credit requirements of farmers, while the money lenders accounted for 93 per cent of the credit required by the farmers. The All India Rural Credit Survey Committee (1954) expressed, "Cooperation has failed but Cooperation must succeed" (Ruddar Dutt and K.P.M. Sundharam, 2010).

On the basis of the recommendations of the Credit Survey Committee, two separate funds were set up in 1956. One called as National Agricultural Credit (long-term operations)Fund was set up to provide loans to State Governments to enable them to acquire the share capital of Cooperative Societies. The second one known as the National Agricultural Credit (Stabilization) Fund was set up for providing of medium-term loans to state Cooperative Banks. (A. N. Agarwal, 2010)

Again All India Rural Credit Survey Committee (1969) recommended that the adoption of "multi Agency approach" to finance the rural sector. At first, Government openly accepted that cooperative societies alone could not commit the rural credit so that Commercial Banks should act as a vital role in the rural sector (Ruddar Dutt and K.P.M. Sundharam, 2010).

On the basis of the recommendations of the committee, the RBI accepted a series of measures to strengthen the cooperative movement. After nationalization of the imperial Bank of India, The State Bank of India was set up in 1956, to exhibit a distinct organization for agricultural credit (Ruddar Dutt and K.P.M. Sundharam, 2010).

In 1969, 14 leading Banks were nationalized by the Government. This was followed by setting up of Regional Rural Banks (RRBS). Thus the multi agency approach of organizational credit to agriculture was evolved over a number of years (Ruddar Dutt and K.P.M. Sundharam, 2010).

National Bank for Agriculture and Rural Development

When RBI was assisting directly to the cooperative sector, it was felt that multi-Agency Approach, to rural finance needed a special banking organizations to link and assist all the organizations specializing in rural finance. It was for this reason that National Agricultural Bank for Rural Development (NABARD) was established (Ruddar Dutt and K.P.M. Sundharam, 2010).

A landmark in the evolution of agricultural finance is the evolution of agricultural finance is the setting of National Bank for Agriculture and Rural Development (NABARD) with the head office at Mumbai and 16 regional offices throughout the Country, NABARD was established in 1982, as an all India apex, refinance agency. It has the aim of promoting the health and strength of credit organizations for the purpose of refinance, with the complementary activity for instructing, inspecting and supervising the credit flows for agriculture and rural development (A.N.Agrawal, 2010).

Panth Committee (1990-1991)

After getting the recommendations of khusro Committee, the agriculture department, set up another Committee headed by J.C.Panth in 1990. (Asim Roy, 2005) The Committee submitted its report in 1991. These are16 (Asim Roy,2005)

a. Each an every PACS to be self dependent. The PACS which do not provide loans up to 10 lakhs, should specially be watched.
b. The first step is to be taken to initiate step regarding Cooperative education.
c. The Government should take an active part to the PACSs which are financially weak and not to provide loans more than 10 lakhs.

Report of Task Force on Revival of Rural Cooperative Credit Institution:

The Government of India Constituted a Task Force on re-awakening of rural cooperative credit organizations under the chairmanship of A Vaidyanathan to suggest an action plan for bringing to life again the rural cooperative banking organizations and propose an appropriate regulatory framework for these organizations. The Task Force in its Report submitted on February 15, 2005 prepared distinct suggestions to strengthen the rural Cooperative Credit Structure in India. (Misra & Puri, 2010) Some necessary suggestions (Misra & Puri, 2010) are as follows :

i. The Cooperative Credit Structure (CCS) is weak in respect of Governance fronts and hence requires to be revived and reforms.
ii. The financial reforming shall be contingent on commitment to and adoption of legal and organizational reforms by the State Governments.
iii. The financial aid be made available for (a) removing heaped up loss;
(b) covering invoked but unpaid guarantees given by the state Governments; c) providings the capital to a specified minimum level; d) withdrawing Government share capital; e) technical support
iv. scope of monetary support from the Government of India shall be severely subject to legal and organizational reforms in the Cooperative Sector to make certain that the Cooperative become exactly democratic and member driven. In this aspect, the Task Force has advocated a number of reforms like, a) wiping out state intervention in administrative and monetary matters in Cooperative Societies; b) Allowing Cooperative the liberty to take loans from any financial organization and not necessarily from only the uppertire and similarly place their deposits with any financial organization of their choice; c) Constraint powers of the state Government to supersede Boards; d) Ensuing in time election before the maturity of the term of the present Boards; e) Starting Prudential norms including Capital to Risk weighted Assets Ratio (CRAR) for all financial cooperatives including PACS.
v. The Task Force has also suggested certain major amendments to the provisions of the Banking Regulation Act, 1949 wiping out of dual control and bringing the Cooperatives Societies under the regulatory control of Reserve Bank of India.(RBI).
vi The total financial support has been estimated nearby Rs 14,839 crore. It also conduct a special audit to estimate the exact requirement of assistance. The Govt of India, state Government and CCS will share the financial support based on the origin of loans with in a flexible matrix.
vii. It has also suggested that NABARD will act as a nodal agency to link the progress of the programmes.

On the basis of the recommendation of the task force, the central Government announced a package to revive the cooperative societies which have short term credit structure. Central Government and NABARD signed Memorandum of undertakings (MOU) with the twenty five states at the end of 2009.The total Coverage regarding short term credit structure was more than 96 percent .At the end of may, 2009 ten states made amendment their cooperative societies Act . NABARD as the Government Shares under the package to the PACSs in these states sanctioned the total amount of Rs 6073 (Misra & Puri, 2010)

Credit to Agricultural Sector by the financial organization

The sources of agricultural finance can be classified into two parts. One is organizational finance and another one is non-organizational finance. The non-organizational sources of finance have been procured from money lenders, relative, friends, and traders, commercial agent and lenders. The organizational or institutional finance include cooperative societies, scheduled commercial banks and Regional Rural bank. As cooperative societies are concerned, primary Agricultural. Cooperative Societies (PACSS) provide mainly short-term and medium- term loans and primary Agricultural Rural Development Bank provide only long term loans to Agriculture.The commercial Bank, including Regional Rural bank, both short and long- term loans for agriculture and allied activities (Misra & Puri, 2010).

The national Bank for Agriculture and Rural Development (NABARD) is the National level apex organization for the credit of agriculture and provide refinance assistance to the agencies A crucial role is performed by the Reserve Bank of India as the Central Bank of the Country in this sphere by providing overall direction to rural credit and financial assistance to NABARD for its activities (Misra & Puri, 2010).

It is clear that organizational credit to agriculture inclined from Rs. 744 crore in 1970-71 to Rs. 9830 crore in 1990-91 and Rs. 62045 crore in 2001-02 (last year of the Ninth plan). (Government of India, Economic Survey, 2004-2005, 2005) and Rs. 6230 crores in 1984-85 to Rs. 180480 crores in 2005-06. The contribution to cooperatives was 55 percent of total organizational institutional credit in 1984-85 lent was only 22 percent is 2005-06. Correspondingly commercial including RRBS have raised their share from 45 percent to 70 percent during the period. ((Ruddar Dutt and K.P.M. Sundharam, 2010)

The tenth plan (2002-07)) projected a substantial jump in institutional credit flow to the agricultural sector to the of Rs.736600 crore almost three times, as compared to the nineth plan (Ruddar Dutt and K.P.M. Sundharam, 2010).

Conclusion

The main recommendation of Agricultural Commission was to publish the unplanned development of the cooperative movement during 11 years from 1918 to 1928 and to create the cooperative Societies to solve the problems of the cultivator by supplying the credit, raw materials etc.The Gadgil Committee made a recommendation for setting-up Agriculture Credit Corporation for supplying Agriculture credit to the creditors.

Reserve Bank of India has been playing an important role in supplying Credit to the agriculture. In 1949-50 ,the Reserve Bank of India supplies credit through State Cooperative Bank amount to Rs.2.7 crore.

All India Rural Credit Survey committee showed that the cooperative could commit 3-3 percent of the total credit requirement of the farmers ; whereas money lenders supply 93 percent of the total requirement of the farmers . On the basis of recommendation ,two separate funds were set up in 1956 . One is called National Agricultural Credit (long term operation) Fund and another one is National Agriculture Credit (stabilization) Fund .

The Reserve Bank of India setup National Bank for Agriculture and Rural Development (NABARD) In 1982 for the development of cooperative sector in India .

The Panth made a suggestion that PACS should be self dependent and Government should take necessary steps for the cooperative societies which are financially weak and for cooperative education .

The Government of India constituted a Task Force on revival of rural cooperative credit Institutions

Under the chairmanship of A Vaidyanathan to propose an action plan to receiving the rural cooperative banking organizations and suggest the appropriate regulatory framework of these organizations . The Task Force in its report submitted on February 15th 2005 prepared distinct suggestion to strength the rural cooperative credit structure in India .

The Agriculture finance is supplied by the organization i.e; cooperative societies , scheduled, commercials banks etc and the non organisation i.e. money lenders. Primary Agricultural Cooperative Societies provide short term and long term loans .The organizational credit to agriculture inclined from Rs 744 crore in 1970-71 to Rs 9830 crore in 1990-91 and Rs 62045 crore in 2001-02 (last year of the 9th plan). In the 10th plan (2002-07), Institutional credit to agriculture reaches to Rs 73,660 crore .

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22. *Mishra and Puri , op.cit ,p288*
23. *Ibid*
24. *Government of India , Economic survey , 2004- 2005 (Delhi ,2005)' Box 3.2 , p68 cited by Mishra and puri ,Indian Economy , 28 th end , Himalaya publishing House , Mumbai 2010 , pp 288- 289 .*
25. *Ruddar Datt & K.P.M. S undharam ,op. Cit ,p582*
26. *Ibid* MA

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A FEW DIMENSIONS OF CITIZENS' CHARTER WITH SPECIAL REFERENCE TO BANGLADESH

Though it is difficult to make citizens' charters successful in Bangladesh, the government's initiative to introduce them is an expression of its commitment to improve the delivery of public services

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Citizens' charters are a widely discussed issue both in developed and developing countries. In the civil society, people enjoy services provided by the system. Services may be provided by the public and private sectors. People who enjoy or use services are the focus of relevant agencies or service providers. People expect services from trade, business, industrial activity and other public utility sectors. These agencies are required to provide goods and services in order to satisfy the people. Admittedly, the interest of the customers was taken for granted and neglected by the almost all of the service providers. Consequently, citizens' charter is formed by the government in order to address properly the rights of customers relating to service. Different activist groups have been working in different countries in order to implement the principles of citizens' charter and to pressure the government to enact and enforce laws.

Concept of Citizens' Charter

The citizens' charter is a weapon to improve the quality of services. It addresses the needs of the citizens' right and sets clear standard of performance. This charter is a bilateral understanding in between citizens and service providers. This understanding is related to the nature of service that the service providers are obliged to provide. Citizens' charter ensures the efficiency and effectiveness of delivery of services. However, citizens' charter is defined by the different authorities in different ways as under –

Citizens' charter is a written, voluntary declaration by service providers that highlights the standards of service delivery that they must subscribe to, availability of choice for consumers, avenues for grievance redressal and other related information.

– *H.P. Shiva Shankar*

Citizens' charter is a document setting out the rights of citizens'...... that guaranteed citizens' the right of redress on occasions where a public service failed to meet certain standards.

– *Oxford Dictionaries*

Citizens' charter is a social programme ….. to improve the standard of public services and to make government departments explain their actions more clearly to the public.

– *Oxford Advanced Learner's Dictionary*

A citizens' charter, indeed, is the expression of understanding between citizens' and the provider of a public service with respect to the quantity and quality of service. It reflects the expectation of the clients and the commitment of the providers.

– *Arif H. Khan*

In short, we can say that a citizens' charter is a type of commitment with respect to the standard of services. The citizens' want the fulfilment of these commitments by respective organizations regarding non-discrimination, accessibility, grievance redress, courtesy, realistic assurance, quality of service, effectiveness in providing service and the like.

Principles of Citizens' Charters

The basic objective of the citizens' charter is to empower the citizens' in relation to public service delivery. Principles are applied in the process of sharing public services. At the outset, six principles were designed in order to improve service quality and to provide better services to citizens'. Primarily, the following objectives were set (Beale and Pollitt 1994):

i) The setting, monitoring and publication of explicit standards
ii) Information for the user and openness in the availability of that information
iii) Choice wherever practicable, plus regular and systematic consultation with users
iv) Courtesy and helpfulness
v) Well publicized and easy to use complaints procedures and
vi) Value for money

In the year 1998, the above principles were revised by Government of United Kingdom and nine principles were set. These principles are considered as the principles of citizens' charter and has received universal acceptance. The said principles (Ministry of Establishment, Bangladesh, 2010) are briefly described below:

Standards: The user of service expects quality service continuously and in time. In order to ensure it, standards are set. The main objective is to monitor and publish clear standards for service. Publication of actual performance figures against the standards was made mandatory.

Information and openness: This principle ensures the availability of full and accurate information in the comprehensive language. The users of the service should have free access into the information. The information may contain the way of providing the service by the service provider and the cost to be involved in providing these services. Information also incorporate the appraisal of the performance of service providers along with the accountability for providing services. The citizens' must be able to procure information either from the published sources or from the electronic means.

Consult and Involve: There should be a regular and systematic consultation with those who use services. Involvement of citizens' in policy formulation and its implementation help impose effective control over the process and activities. People should have influence over the management of public services. It is of immense importance for raising public awareness in the society. The study of Sobhan (2005) on the participation of citizens' in the activities of local government reveals the evidence of strong bond between the two stakeholders.

Accessibility: There should not be any gap in between the service users and service providers. The citizens' would be benefited if they have easy access to services. Easy access to service would enhance the responsiveness of citizens'.

Non- Discrimination: Equality in treatment is the civil right of citizens' and it is recognized by the constitutions in almost every country. There should not be any discrimination based on sex, races and class in providing services. All citizens' are entitled to enjoy same services delivered by the service providers.

Accountability: Citizens' charter holds that relevant officers should be accountable to their work by making them answerable to the service users and the relevant authority. The reform and improvement of public sector services require accountability (Turner and Hulme, 2004). Accountability creates pressures for key actors to be responsiveness for and to ensure good public service performance. In order to materialize citizens' charter, accountability or answerability is the important weapon.

Transparency: Transparency is required to enhance the service quality and to raise the faith of citizens' on service delivering organization. Therefore, it strengthens the faith of people and enhances the culture of trust. Hence, citizens' charter is expected to safeguard the transparent services.

Reliability: Services are to be provided on time in order to satisfy the service users. If reliability could be ensured, factors like corruption, payoffs, irregularities and the like could be routed out. As a consequence, people will get reliable and consistent services.

Grievance Redress: There should not be any suppressed complains in the mind of citizens'. The grievances of citizens' should be handled appropriately as per the provisions of citizens' charter. If there is enough room for handling grievances, the ineffective officials could be brought under the scope of law and the citizens' could properly be redressed.

Background of Citizens' Charters

It is admittedly true that citizens' not only demand the efficiency, effectiveness and economy in service delivery but they also want public bodies to be more responsive to the users and consumers of public service (Drewry 2005). Generally, citizens' of a country demand institutions that are accessible and offer choices of services as per the need of citizens'. They also demand institutions that empower them rather than simply serving (Osborne and Gaebler 1992). If the citizens' are satisfied with the performance of local officers, they express greater support for the system. If the local institutions are not able to satisfy the demands of citizens', the citizens' may not only express their discontent with local government but they may increasingly be dissatisfied with the way democracy works in the entire nation (Montalvo 2009).

John Major, the erstwhile prime minister of the United Kingdom realized the demand and desire of the citizens'. In 1991, the conservative government of John Major articulated and implemented the citizens' charter in the United Kingdom for the first time. The objective of John Major was not only to improve the quality of public services but also to create public support for his government. Later in 1998, citizens' charter was re-launched as service first by the labor government of Tony Blair. Blair was also driven by the psychological and political framework of Major. The relaunch of charter programme represents an attempt to reassert bottom up and customer-oriented approach towards charters which are owned within public administration and geared toward the objective of enhancing citizens' participation (Falconer and Ross 1999). The UK experience on citizens' charter acts as a milestone for the performance improvement of public organizations. In addition, there is a system of paying compensation to customers when they fail to provide the services as per the standards.

The citizens' charter of the UK aroused considerable interest around the world and several countries implemented the similar programmes. Several countries of the world like Belgium (Public Service Users Charter 1992), France (Service Charter, 1992), Spain (The Quality Observatory, 1992), Portugal (The Quality Charter in Public Services, 1993), Malaysia (Client Charter, 1993), Jamaica (Citizens' Charter 1994), Canada (Service Standards Initiative, 1995), India (Citizens' Charter, 1997) and Australia (Service Charter, 1997) implemented the citizens' charter (http://goicharters.nic.in/ccinitiative.htm.

Bangladesh scenario

Bangladesh is not a newly independent state. She has born in the year 1971. At present, the total population of the country is approximately 160 millions. Here, in Bangladesh most of the public servants are influenced by political motives rather than rules and norms. Political leaders are also found to misuse their official power and break the rules frequently. Almost all types of nepotism and favoritism are practiced in this country. Political leaders favor their family members, relatives and party workers regardless of what rules prevail. It is also admitted that personal connections are most important proactive factors for getting things done in the public services.

When intellectual and philanthropist were searching a way for coming out from the dark cape of corruption and irregularities, the Public Administration Reforms Commission (PARC) recommended the introduction of citizens' charter in a number of public agencies in 2000. It is a commendable initiative of the organization. The government failed to implement the recommendations of the PARC. Following the landmark of the PARC, the caretaker government asked all ministries to formulate citizens' charter in 2007. All ministries of the People's Republics of Bangladesh and some public service agencies have formulated citizens' charter as per the order of the caretaker government. However, the initiatives of the government and its relevant organs have not yet been successful. The inhabiting factors are outlined below (Khan, 2008):

i) For the formulation of citizens' charter, the participation of the people (service recipients) is essential. The executives of the respective government body had developed the charter by ignoring the opinions of these service receivers. As a consequence, citizens' charter does not reflect the expectation of the citizens'.
ii) The formulation of the citizens' charter was an emotional decision of the government since the objectives of introducing the citizens' charter is not clearly defined. This flaw has created significant amount of misunderstanding among the civil servants.
iii) It was essential to introduce a pilot model of citizens' charter in a particular institution in order to build capacity and to gather experience. In fact, all the ministries and some public agencies undertook the initiative without any past experience or required capacity. The initiative died in the infant stage due to the lack of experience.
iv) The implementation of any policy or plan requires coordination or monitoring body. Nobody has been given the assignment to monitor the initiative. As a result, the initiative failed in the rudimentary stage.
v) No capable person was involved in the process of implementing the citizens' charter. The initiative of building capacity was not undertaken and as such, the proposed citizens' charter became the myth.
vi) The charter was not communicated or publicized sufficiently. It is to be noted here that the members of respective ministries or agencies were ignorant even about their departmental charter.
vii) No appraisal was undertaken to determine whether the charter fulfills the expectations of the citizens'. On the contrary, no system is devised to monitor whether the performance of agency is in conformity with the charter or not.
viii) In the formulation of charter for local bodies like union parishad, upazila parishad, municipal or City Corporation the involvement of local people was absent. These charters were formulated by the senior staffs of the central body and hence the charters were unable to meet the expectations of local people.
ix) The citizens' charter was mostly service specific rather

than institution specific. Consequently, the citizens' charter does not reflect the accountability of the institution.

x) The charter of different ministries and public agencies are not standardized. There is no vision and mission in some charters. The committed standard of service seems to be ambiguous in many cases. The timeframe for delivering services is dogmatize and misleading. In some cases, either terms like "as soon as possible" or "to the extent possible" has been used. The charter for setting service has not been specified in many cases. Moreover, grievance redressal mechanism has not been mentioned in most of the charters.

xi) No budget is earmarked for the citizens' charter initiatives.

In Bangladesh, it is very difficult to make citizens' charter initiative successful. There is bureaucracy in Bangladesh and it has also a colonial legacy. Therefore, citizens' charters is really are a hard nut to crack. Despite that, the government's proactive initiative to introduce citizens' charter is an expression of its commitment to improve public service delivery. So, the government should take necessary steps to get rid of these shortcomings of the initiatives mentioned above. Charter advisory panel may be formed to alleviate the pitfalls (Keeble, 1996).

Conclusion

Citizens' charters raise new hopes and aspirations among the users of services. The service-providing organizations should provide necessary services efficiently and effectively. When drafting a charter, the capabilities of service providers must be taken into account. An ambitious charter can not be implemented. The involvement of all stakeholders is essential in order to formulate and implement a charter. The charter will work as a statement of deception or merely a paper exercise without wider participation and consultation.Poor complaint-handling systems and lack of access to information may jeopardize the initiatives of citizens' charters. Capacity building activities and monitoring system are essential to prepare and implement citizens' charter. Management and administrative commitment is imperative for sustainable charter and to enhance service quality as per the cited standards.

When drafting a charter, the capabilities of service providers must be taken into account. An ambitious charter cannot be implemented. The involvement of all stakeholders is essential in order to formulate and implement a charter

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Eastern India Regional Council

Cuttack-Bhubaneswar Chapter of Cost Accountants

To make ready the students for the corporate world and to impart all managerial qualities in them, the Chapter conducted 3rd Soft Skill Development programme (2013-14) on 31st August, 2013 at its Conference hall. Dr. Rayguru Kumar, Shri Mangesh Dash, Advisor, TWARAN, Ex-Professor in IMIS & an expert in soft skill training guided the students on development of Soft Skill & Communication Skill. More than 60 Inter and Final students of the Chapter participated in the programme. A project presentation skills programme was also organized on 1st September, 2013.

The chapter organized a seminar on 'Internal audit, co-operative sector & CMAS' at its conference hall. Shri Bishnupada Sethi, IAS, Commissioner cum Secretary to Govt. Department of Co-Operation, Govt. of Odisha, Secretariat, Bhubaneswar inaugurated the seminar as Chief Guest and addressed the gathering. CMA Pravakar Mohanty, Head of Finance, IDC of Orissa and also the past President of the Institute, was the Guest of Honour and delivered the keynote address. CMA T.C.A Srinivasa Prasad, Central Council Member, the Resource Person in the technical session, conducted the seminar. CMA S.S. Sonthalia, past chairman of EIRC and one of the leading Practicing Cost Accountants in Odisha moderated the technical session and delivered the concluding address.

South Odisha Chapter of Cost Accountants

A seminar on 'New Service Tax Regime – challenges & practical aspects' was organized on 18th August 2013. CMA Sudhir Ranjan Mohini, DGM (F&A), NTPC Ltd. Kaniha was the Chief Guest, CA Sudhansu Sekhara Mohapatra, a leading practicing chartered Accountant from Berhampur was a speaker, CMA Naga Pradeep of NTPC Ltd. Kaniha was also one of the speakers. Others present from the chapter were CMA Narasingha Chandra Kar, Chairman of the Chapter, CMA Ch.Venkata Ramana, Secretary of the Chapter, CMA Rabi Kumar Sahu, vice chairman of the chapter. They talked on various aspects covered under service Tax; its importance, its impact on Indian Tax structure & GDP. Also discussed were new services amended and added since 01.04.2013. There was a close interaction during the question and answer session where all the members attended participated.

Howrah Chapter of Cost Accountants

The chapter organized a workshop on CAS on 1st September, 2013 at of the Howrah Chapter. The programme was held under the CEP for the development of the professional activities of the members of Howrah and adjacent areas. The Main theme of the said workshop was 'Cost Accounting Standard (CAS)'. CMA Vivakananda Bandhopadhoy, Secretary of EIRC was the chairman of the session. CMA Ranajoy Bandhopadhoy was the speaker on the subject. About 30 members were attended on that workshop. CMA Tapas Bhattacharyya, Chairman of the Chapter delivered the welcome speech to the guests and participants. Participant members were awarded two hours credit for that programme.

Ranchi Chapter of Cost Accountants

The chapter organized a Joint programme on Youth Festival with Ranchi Chapter of Chartered Accountants in association with Rotary Club of Ranchi. This full day programme was inaugurated by Sri R.R. Mishra, Director (personal) Chief Guest, CMA A.D. Wadhwa, Past Chairman EIRC, CA Vivek Sharma and CMA Ajay Agarwal. He addressed the gathering and motivated the students. CMA Sanjay Singh, CMA A.D.Wadhwa, CA Vivek Sharma Smt. Khyati Munjal, also addressed the gathering. On this occasion, Sri Deepak Tirkey, winner of Chak De Bachhe, Dance Programme on National T.V. Programme, Coach Indian Women Hockey team & Player Miss Sumerai Tete, Smt. Jatri Orain, Tana Bhgat, freedom fighter & Mr. Ranjeet Kumar, handicapped entrepreneur felicitated in this programme. More than 200 students and members were present in the occasion.

Northern India Regional Council

Allahabad Chapter of Cost Accountants

The chapter had organized a seminar on 'Forensic audit - A Tool to curb Frauds' on 29th August, 2013. CMA Subhash Agarwal Director Finance, Cement Corporation of India with additional charge as CMD of Triveni Structural Limited Allahabad was key-note speaker. The Seminar was inaugurated by CMA Subhash Agarwal along with CMA R.P. Agarwal senior advocate and founder Chairman of ACCA and Dr Kiran Kumar, Professor of Allahabad University by lightening the Lamp. CMA Subhash Agarwal covered various techniques of Forensic Audit that can be used to detect the frauds and the other areas where it can be used. He narrated how in recent years, commercial establishments, banks, insurance companies and even police agencies have increased the assistance of Forensic Audit experts. Forensic Audit in India has come to limelight only recently due to rapid increase in frauds and white-collar crimes and the belief that our law enforcement agencies do not have sufficient expertise or the time needed to uncover frauds.

Lucknow Chapter of Cost Accountants

The chapter organized a workshop on e-filing of Income Tax Returns with latest amendments and Shri R.R. Lal, Professor, Shri Ramswaroop Memorial College of Engineering and Management was the Chief Guest and Shri Rajesh Srivastava, Dy. General Manager, Rites was the Guest of Honour. Dr. Pawan Jaiswal was the eminent speaker on workshop of e-filing of Income Tax Returns with latest amendments. He briefed the CMA Members & Students about the latest amendment in online income tax returns e-filing.

The chapter had also organized a seminar on the Company Law Bill 2012 and the roles of CMAs in future. CMA SB Agarwal, Secretary General of ASSOCHAM, UP was the chief guest at the event. The chapter had also organized the inaugural function for the new session. Dr. Ashok Bajpai, Ex-Cabinet Minister, Govt. of U.P. and National General Secretary of Samajwadi Party was the Chief Guest and Shri Murlidhar Nayak, Commercial Head, Reliance India Ltd and Shri Vidya Charan Shukla, AGM-Commercial, Dalmia Bharat Sugar and Industries Ltd. was the Guest of Honour of this event. In the speech of Chief Guest Dr. Ashok Bajpai, Ex-Cabinet Minister, Govt. of U.P. and Guest of Honour Shri Murlidhar Nayak, Commercial Head, Reliance India Ltd and Shri Vidya Charan Shukla, AGM-Commercial, Dalmia Bharat Sugar and Industries Ltd. said that there is absolutely no doubt that Cost and Management Accountants (CMA) career is the best course out of other professional courses because CMAs are competent to space the Indian economy and control inflation of our nation. They can also control pricing so that public service may be provided on reasonable rates to the public. Cost and Management Accountants (CMA) have amplified their role from the level of accountant, since nowadays they are the genuine professionals in the field of management and accountancy to lead the nation a step ahead by putting their skills in controlling the cost and inflation and their contribution towards enhancing the overall economy of the nation and the world as well.

Jaipur Chapter of Cost Accountants

The chapter organised a seminar on Cost Audit Compliance, VAT and New Companies Bill on 17th August, 2013. Chief Guest of the seminar was Shri Rajeev Kumar, Asst. Commissioner of Commercial Taxes. The first Technical session key speaker was Shri S.K. Bhatt, RCM and Treasurer of NIRC, New Delhi. He explained in detail about the Cost Audit Compliances. He also highlighted the provisions of new companies Bill. In the Second Technical session Key Speaker was Shri Pankaj Ghia President, Rajasthan Tax Consultants Association. He explained in detail the various provisions related to VAT. Both the sessions were very interactive. Queries by the participants were replied by the speakers to their satisfaction.

The chapter also organised a Communication and Soft Skills Training programme for Intermediate students on 26th and 27th August, 2013. It was inaugurated by Shri Kunji Lal Meena, CMD of Jaipur Vidyut Vitran Nigam Ltd. In his address he emphasised on positive thinking and effective communication. In the valedictory session, Chief Guest was Shri G. Sundararaman, Vice-President, JCB Ltd. He gave valuable tips to the students for effective Communication Presentations given by students were judged by (1) CMA R.G. Verma, Retired Director Finance, Instrumentation Ltd. and (2) CMA Prabha Agrawal, Retired Chief Accounts Officer, RVPNL. Prizes were also awarded by the Chief Guest to the best performing students.

Southern India Regional Council

Two industry oriented training programme had been organized by the region to focus on training of students appearing in the final year examination. At the inauguration present were: Sri. N. Tarachand Dugar, Chairman, Dugar Group; along with him were CMA P. Raju Iyer, Chairman, SIRC, Sri. Mahabharathi, GM - TAMPCOL, Sri. D. Raman, Lucas-TVS and CMA Ramachandran, Treasurer, SIRC. In the event areas of strategic management, mind empowerment, financial reporting standards and tax management issues were discussed in addition to other topics.

Hyderabad Chapter of Cost Accountants

A student's programme was organized by the chapter. CMA Dr A S Durga Prasad, Vice-President of the Institute, was the Chief Guest for the inaugural function and CMA K Swaminathan, Regional Manager, Indian Overseas Bank was the Guest of Honor. The Event was kicked off with a two minute curtain raiser that covered - background of the student programme organized by the Chapter, its evolution over the last 20years, overview of other year round programmes and scheduled activities for the day. The Inaugural session was attended by 110 students. The dignitaries sharing their experiences with students and Awards to Dec 2012 exam toppers were highlights of the session. About 75 students participated in the activities organized in the second half of the day. There were three activities; the first activity is titled 'Creative Carpet' that has an objective of encouraging creative thoughts among the students. The Second event is a Quiz titled 'Pragnya'. It had two rounds, screening and final. The objective was to test the students' knowledge of current affairs, particularly relating to Corporate / Business world. 'Elevator Speech' is the third event, where in the students were asked to come up with new business proposals and present their ideas to the judges in less than one minute. CMA TSN Raja, APSFC and CMA K Radha Krishna, CFO & Director, T-Sync were Judges for this activity. Both the Judges felt that even though the participants were given limited time, some of the teams have presented ideas that were interesting and practical. The Judges shared their views and experiences about startup businesses before delivering their verdict. Throughout the event, the students displayed high energy levels, creativity and passion thus making the tag line for the Programme, "your inner creativity and passion" an apt choice. The programme ended with a brief valedictory function.

The chapter had also organized an educational visit to the Securities Exchange Board of India (SEBI) for the students. About 40 students got an opportunity to visit SEBI premises in Banjara Hills, Hyderabad. The officials at SEBI had given our students an overview of SEBI's operations, its principles and objectives. There was also a live demo, to explain how the Stock Markets operate, how equities are different from options, how to purchase / sell equity and options. The demo was followed by a question and answer session.

Thrissur Chapter of Cost Accountants

CMA H Padmanabhan, Vice Chairman of SIRC delivered key note address during the occasion of UGC Sponsored National Seminar, two days programme was held at St. Thomas College, Trhrissur on 20th August 2013 on 'Commodity Derivatives and the Role of Intermediaries'. CMA P Raju Iyer, Chairman, SIRC, Dr. Jenson P O, Principal St. Thomas College and Dr. V M Xaviour were also present.

Western India Regional Council

Surat-South Gujarat Chapter of Cost Accountants

The chapter had organized a CEP programme on the topic 'Provision of New company Act 2013 and Practical aspects of Service Tax' on 1st September, 2013, at Ankleswar facility center. The main speaker was CMA. Shailendra Saxena, Vice –President of Gujarat Borosil Ltd, Bharuch. He is also an eminent faculty and he shared his views on Provision of New Company Act 2013 with Comparison of Old Company Act 1956. CMA Shailendra Saxena also explained Legal aspects of Service tax provisions and recent legal Controversies of Service tax followed by Question Answer Session.

MANAGEMENT ACCOUNTANCY EXAMINATION TIMETABLE & PROGRAMME – DECEMBER 2013

Tuesday	Tuesday	Wednesday	Wednesday	Thursday
10th December, 2013 09.30 A.M to 12.30 P.M	10th December, 2013 02.00 P.M to 05.00 P.M	11th December, 2013 09.30 A.M to 12.30 P.M	11th December, 2013 02.00 P.M to 05.00 P.M	12th December, 2013 09.30 A.M to 12.30 P.M
Management Accountancy	Advanced Management Techniques	Industrial Relations & Personnel Management	Marketing Organisation & Methods	Economic Planning & Development

Examination fees: Per Group Rs 2500/-

1. (a) Application Form for Management Accountancy Examination is available from Directorate of Advanced Studies, The Institute of Cost Accountants of India, Hyderabad Centre of Excellence, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad on payment of Rs 50/- per form.
   (b) Students can also download the Examination Form from ICAI Website at www.icmai.in.

2. Last date for receipt of Examination Application Form without late fees is 10th October, 2013 and with late fees of Rs 300/- is 20th October,2013.

3. Examination fees to be paid through Bank Demand Draft of requisite fees drawn in favour of "The Institute of Cost Accountants of India" and payable at Kolkata.

4. Students may submit their Examination Application Form along with the fees at Directorate of Advanced Studies, The Institute of Cost Accountants of India, Hyderabad Centre of Excellence, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad. Any query in this regard may be addressed to Directorate of Advanced Studies, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad.

5. Examination Centres: Adipur-Kachchh(Gujarat), Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli,Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.

6. A candidate who is completing all conditions will only be allowed to appear for examination.

Dr. P. S. S. Murthy
Director (Advanced Studies)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

EXAMINATION TIMETABLE & PROGRAMME – DECEMBER 2013

PROGRAMME FOR SYLLABUS 2008			PROGRAMME FOR SYLLABUS 2012 (REVISED)	
Day, Date & Time	**Intermediate – 2008 9.30 a.m. to 12.30 p.m.**	**Final – 2008 2.00 P.M. to 5.00 P.M.**	**Intermediate – 2012 9.30 A.M. to 12.30 P.M.**	**Final – 2012 2.00 p.m. to 5.00 p.m.**
Tuesday 10 Dec 2013	-----	Capital Market Analysis & Corporate Laws	Financial Accounting	Corporate Laws and Compliance
Wednesday 11 Dec 2013	Financial Accounting	Financial Management & International Finance	Laws, Ethics and Governance	Advanced Financial Management
Thursday 12 Dec 2013	Commercial & Industrial Law & Auditing	Management Accounting – Strategic Management	Direct Taxation	Business Strategy & Strategic Cost Management
Friday 13 Dec 2013	Applied Direct Taxation	Indirect & Direct – Tax Management	Cost Accounting & Financial Management	Tax Management & Practice
Saturday 14 Dec 2013	Cost & Management Accounting	Management Accounting – Enterprise Performance Management	Operation Management and Information Systems	Strategic Performance Management
Sunday 15 Dec 2013	——	Advanced Financial Accounting & Reporting	Cost & Management Accountancy	Corporate Financial Reporting
Monday 16 Dec 2013	Operation Management & Information Systems	Cost Audit & Operational Audit	Indirect Taxation	Cost & Management Audit
Tuesday 17 Dec 2013	Applied Indirect Taxation	Business Valuation Management	Company Accounts and Audit	Financial Analysis & Business Valuation

EXAMINATION FEES		
Group (s)	Final Examination	Intermediate Examination
One Group (Inland Centres) (Overseas Centres)	₹1250/- US $ 100	₹1000/- US $ 90
Two Groups (Inland Centres) (Overseas Centres)	₹2250/- US $ 100	₹1600/- US $ 90

(a) Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card.
(b) Application Forms for Intermediate and Final Examinations are available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of Rs. 50/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US $ 10 per form.
(c) Students can also download the Examination Form from ICAI Website at www.icmai.in.
2. Last date for receipt of Examination Application Forms without late fees is 30th September, 2013 and with late fees of Rs. 300/- is 10th October, 2013. In case of online Examination Application with payment gateway by using Credit/Debit Card, the late fees of Rs. 00/- will be waived if applied within 10th October, 2013.
3. Examination fees to be paid through Bank Demand Draft of requisite fees drawn in favour of "The Institute of Cost Accountants of India" and payable at Kolkata.
4. Students may submit their Examination Application Forms along with the fees at ICAI, CMA Bhawan, 12 Sudder Street, Kolkata – 700016 or Regional Offices or Chapter Offices. Any query in this regard may be addressed to Examination Directorate at 12, Sudder Street, Kolkata – 700016.
5. Finance Act 2012, involving Assessment Year 2013-2014 will be applicable for the Subjects Applied Direct Taxation, Applied Indirect Taxation and Indirect & Direct Tax Management for Syllabus 2008 and Direct Taxation, Indirect Taxation and Tax Management & Practice for Revised Syllabus 2012 for the purpose of December 2013 term of Examination.
6. Examination Centres: Adipur-Kachchh(Gujarat), Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli,Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.
7. A candidate who is completing all conditions will only be allowed to appear for examination.
8. Probable date of publication of result : Inter & Final – 21st February 2014.

A. Das
Director (Examination)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

EXAMINATION TIME TABLE & PROGRAMME – DECEMBER 2013

FOUNDATION COURSE EXAMINATION
(Multiple Choice Questions – Online Mode)

<table>
<tr><th>Day & Date</th><th colspan="2">Foundation Course Examination</th></tr>
<tr><td rowspan="2">Saturday, 28th December, 2013.</td><td colspan="2">Syllabus-2008</td></tr>
<tr><td>Paper – 1 & 2 (100 Marks)
Time : 10 A.M. to 12.00 Noon

Paper 1 : Organisation and Management Fundamentals (50 Marks)

Paper 2 : Accounting (50 Marks)</td><td>Paper – 3 & 4 (100 Marks)
Time : 2 P.M. to 4.00 P.M.

Paper 3 : Economics and Business Fundamentals (50 Marks)

Paper 4 : Business Mathematics and Statistics Fundamentals (50 Marks)</td></tr>
<tr><td rowspan="2">Sunday, 29th December, 2013.</td><td colspan="2">Syllabus-2012</td></tr>
<tr><td>Paper – 1 & 2 (100 Marks)
Time : 10 A.M. to 12.00 Noon

Paper 1 : Fundamentals of Economics and Management (50 Marks)

Paper 2 : Fundamentals of Accounting (50 Marks)</td><td>Paper – 3 & 4 (100 Marks)
Time : 2 P.M. to 4.00 P.M.

Paper 3 : Fundamentals of Laws & Ethics (50 Marks)

Paper 4 : Fundamentals of Business Mathematics and Statistics (50 Marks)</td></tr>
</table>

Examination Fees

<table>
<tr><td rowspan="2">**Foundation Course Examination**</td><td>**Inland Centres**</td><td>**₹ 1000/-**</td></tr>
<tr><td>**Overseas Centres**</td><td>**US $ 60**</td></tr>
</table>

1. **The Foundation Examination in both syllabus (2008 & 2012) will be conducted in M. C. Q. Mode through Online only**.
2. Total Questions : 100 (Multiple Choice Questions), Maximum Marks : 100 (Each Question will carry 1 Mark). There will be no negative marking for wrong answers.
3. **(a) Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card.**
   (b) Application Forms for Foundation Examination is available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of ₹50/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US **$** 10 per form.
   (c) Students can also download the Examination Form from ICAI Website at www.icmai.in.
4. **Last date for receipt of Examination Application Forms without late fees is 30th September, 2013 and with late fees of ₹300/- is 10th October, 2013. In case of online Examination Application with payment gateway by using Credit/Debit Card, the late fees of ₹300/- will be waived if applied within 10th October, 2013.**
5. Examination fees to be paid through **Bank Demand Draft** of requisite fees drawn in favour of "**The Institute of Cost Accountants of India**" and payable at Kolkata.
6. Students may submit their Examination Application Forms along with the fees at ICAI, CMA Bhawan, 12 Sudder Street, Kolkata – 700016 or Regional Offices or Chapter Offices. Any query in this regard may be addressed to Examination Directorate at 12, Sudder Street, Kolkata – 700016.
7. **Examination Centres**: Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Chittorgarh, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Gandhidham, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, **Port Blair**, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat. **(If no examination centre is available at a particular location, examinees will be accommodated at the nearest Centre available)**
8. **A candidate who is completing all conditions will only be allowed to appear for examination.**
9. **Probable date of publication of result : Foundation – 15th January, 2014.**

A. Das
Director (Examination)

ADMISSION TO MEMBERSHIP

The Institute of Cost Accountants of India
Advancement To Fellowship

Date of Advancement: 23rd September 2013

M/5589
Mr Bijoy Krishna Das, BCOM HONS,FCMA
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M/6076
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M/6107
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M/6381
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M/7129
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M/7511
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M/18348
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M/18471
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Dgm (Fin & Acts.)&asst C.s. BSES Kerala Power Ltd. Dgm (Fin & Acts.)&asst C.s. BSES Kerala Power Ltd., (A Reliance ADA Group Company), PO - Udyogamandal,
ERNAKULAM 683501

M/18922
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M/19505
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M/22736
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VISAKHAPATNAM 530001

M/23740
Mr Somnath Mukherjee, BSC,MBA,FCMA
Finance Controller Schneider Electric Infrastructure Limited Distribution Transformers Mirzapore Road Naini Allahabad
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M/23875
Ms K Dhanalakshmi Kannan, BCOM,FCMA
Deputy Director (Tariff) Tamil Nadu Electricity Commision Regulatory 19-A, Rukmini Lakshmipathy Salai Egmore
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M/24220
Ms Jessy Jacob, BSC,CFA,FCMA
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DUBAI 22827

M/24317
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PARADEEP 754141

M/24407
Mr Kailash Ratanlal Gandhi, BCOM,FCMA
Proprieor K Gandhi & Associates C-414, Venkateshwara Housing Society Station Road Bhayander (West)
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M/24486
Mr Jai Prakash Kukreja, MCOM,FCS,FCMA
C F O Cum Company Secretary S T P Ltd 707, Chiranjiv Tower, 43, Nehru Place,
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CHENNAI 600042

M/24802
Mr Anil Kumar Yadav, MCOM,FCMA
Sr. Accounts Officer Bharat Heavy Electricals Ltd. H. No. 307, Type-IV, Anpara Thermal Colony, 2x500MW Thermal Power Project, Anpar
SONEBHADRA 231225

M/24935
Mr Syed Musharaf Hasan Razvi, BSC HONS,MBA,FCMA
Financial Management Specialist Hill International House 22, Lane 4, Street 14 Wazir Akbar Khan
KABUL 000000

M/25073
Mr Sudip Dasgupta, BSC,MBA,FCMA
Manager (Finance) Eastern Coalfields Limited Officer Of The General Manager Sripur Area P O Sripur Bazar
ASANSOL 713373

M/25145
Mr Arasanipalai Srinivasan Chakravarthy, BCOM,FCMA
Deputy Manager (Finance & Accounts) Rashtriya Ispat Nigam Limited 6th floor, NMDC Building, Masab Tank
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M/25434
Mr Kailash Khemani, BCOM HONS,ACA,FCMA
Consultant Q Six Pvt Limited Hotel Samrat Chanakaya Puri Kotalaya Marg
DELHI 110021

M/25848
Mr Amit Sharma, BCOM,FCMA
Dy Manager (Finance & Accounts) GAIL (I) Ltd. Administrtation Block GAIL (I) Ltd., GAIL Complex, Vijaipur,
GUNA 473112

M/25910
Mr Rajesh Chaudhuri, BCOM HONS,MBA,FCMA
Chief Financial Officer Turner Morrison Ltd 711, Chiranjiv Tower A3, Nehru Place
NEW DELHI 110019

M/26017
Mr Manoj Kumar Singh, BCOM HONS,FCMA
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M/26112
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Dy Manager (F&A) Gail (India) Ltd 3rd Floor Fortuna Tower 10 Rana Pratap Marg
LUCKNOW 226001

M/26180
Mr Sandeep Maheshwari, BCOM,MBA,ACS,FCMA
Sr. Divisional Finance Manager Govt. Of India Sr. Divisional Finance Manager D R M Office, Northern Railway,
AMBALA CANTT. 133001

M/26323
Mr Kanchan Saxena, MCOM,FCMA
ACCOUNTS OFFICER (CASH) BHARAT SANCHAR NIGAM Patelnagar Near Kalpi Stand Orai
ORAI 285001

M/26402
Ms Smita Pai, MCOM,FCMA
F & A Manager Operation I B M Daksh Business Process Service (P) Ltd Prasad Technology Park Near Vydehi Circle Whitefield
BANGALORE 560050

M/26436
Mr Rajiv Ranjan Daftuar, BCOM HONS,FCA,FCMA
Accounts Officer BHARAT SANCHAR NIGAM LTD Telecom Quarter No. 2, Budh Marg, Near Museum,
PATNA 800001

M/26502
Mr Debdas Goswami, BCOM HONS,FCMA
Chief Finance Officer Recon Builders Pvt LtD Anandmoyee Tower P. N. Bose Compound Lalpur
RANCHI 834001

M/26512
Mr C Sanjeevi, MCOM,MBA,FCMA
DGM (Finance & Accounts) Aegan Industries Private Limited 63 Amman Kovil Street, Oormechikulam Samayanallur Post Madurai District
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M/26808
Ms Hema Gopalakrishnan, BCOM,FCMA
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ERNAKULAM 683111

M/26875
Mr Saket Kumar, BCOM,FCMA
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NOIDA 201304

M/26968
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Plot No. 63, Flat No. 503 Sai Krupa Residency Bsp Colony Mothi Nagar
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M/26981
Mr Pakkam Krishnan Kesavan, BCOM,FCMA
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CHENNAI 600050

M/26983
Mr Mugdha Yogesh Keskar, MCOM,M PHIL,FCMA
Assistant Professor K G Joshi College Of Arts & N G Bedekar College Of Commerce Creek Land, Chendani Bunder Road
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M/27005
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Practicing Cost Accountant Rammani Sarkar & Co. 9c, Khudiram Basu Road P.o.- Nabagram (Konnagar Hooghly
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M/27015
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Asst. Director T & P The Institute of Cost Accountants of India CMA Bhawan 3, Institutional Area, Lodhi Road
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M/27077
Mr Tanjit Kaur, BCOM,FCMA
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Mr N J R V Girish Kumar, MCOM,CIMA,FCMA
Manager Bosch Ltd #75, M I D C Satpur
NASHIK 422007

M/27092
Mr Sudhir Kumar Sharma, BSC,MBA,FCS,MCA,FCMA
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NEW DELHI 110017

M/27121
Mr Shashi Kant Gupta, BSC,FCMA
Partner S K G & Co. 7- C, Ayodhya Enclave Sector 13, Rohini
NEW DELHI 110085

M/27207
Mr Mohammad Hannan, MCOM,MBA,FCMA
Manager - Finance Ircon International Limited Pocket C-4 District Center Saket
NEW DELHI 110017

M/27219
Mr Praveen Saluja, BCOM HONS,FCMA
General Manager (Finance & Accounts) Nextbrick Solutions Ltd Nextbrick House G - 11, sector -11
NOIDA 201301

M/27231
Mr R S Murthy, BCOM,FCMA
Commercial Controller Bunge India Pvt Ltd The Capital, 601C & 601D, 6th Floor, C-70, G - Block Bandra-Kurla Complex Bandra East
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The Institute of Cost Accountants of India
Admission to Associateship on the basis of MOU with IMA, USA

Date of Admission: 3rd September 2013

C/34991
Mr Naseem Palliparamban, MCOM,CMA(USA),ACMA
Accounts Manager Chabros Int'l Group F Z C O, Dubai Post Box 40027,
DUBAI 40027

C/34992
Mr Sudhakar Lamba, BCOM HONS,CMA(USA), CPA(USA),ACMA
H. No. 23, Road No. 19, (East) Punjabi Bagh,
NEW DELHI 110026

The Institute of Cost Accountants of India
Admission to Associateship on the basis of MOU with IPA, Australia

Date of Admission: 3rd September 2013

I/34993
Mr Jawad Saleem, MIPA,ACMA
Finance Director, Levi Strauss Pakistan (Pvt.) Ltd. Prime Heights, 4, Saint Mary's Park, Gulberg III,
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I/34994
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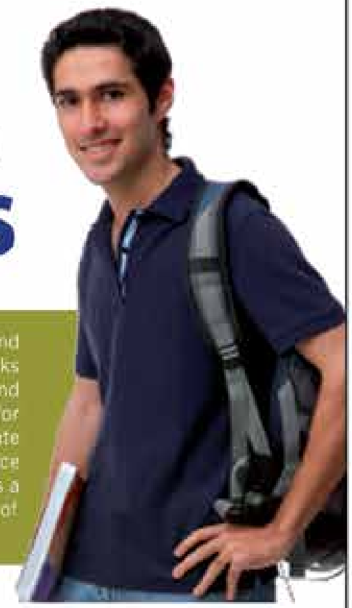

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