SIRC Newsletter

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Southern India Regional Council ▸ THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA ▸ SET UP BY AN ACT OF PARLIAMENT

INSURANCE & RISK MANAGEMENT

FRAUD
QUALITY
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ECONOMIC
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LEGISLATIVE
TECHNOLOGICAL
ENVIRONMENTAL
RISK
OPERATIONAL
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INFORMATION SECURITY

Happy New Year!

Southern India Regional Council of
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
Wishes its Members, Students & the Staff of ICAI

A VERY HAPPY AND PROSPEROUS NEW YEAR 2013 AND PONGAL

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
Sun	**6 13 20 27**	**3 10 17 24**	**31 3 10 17 24**	**7 14 21 28**	**5 12 19 26**	**30 2 9 16 23**
Mon	7 14 21 28	4 11 18 25	4 11 18 25	1 8 15 22 29	6 13 20 27	3 10 17 24
Tue	1 8 15 22 29	5 12 19 26	5 12 19 26	2 9 16 23 30	7 14 21 28	4 11 18 25
Wed	2 9 16 23 30	6 13 20 27	6 13 20 27	3 10 17 24	1 8 15 22 29	5 12 19 26
Thu	3 10 17 24 31	7 14 21 28	7 14 21 28	4 11 18 25	2 9 16 23 30	6 13 20 27
Fri	4 11 18 25	1 8 15 22	1 8 15 22 29	5 12 19 26	3 10 17 24 31	7 14 21 28
Sat	5 12 19 26	2 9 16 23	2 9 16 23 30	6 13 20 27	4 11 18 25	1 8 15 22 29

	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
Sun	**7 14 21 28**	**4 11 18 25**	**1 8 15 22 29**	**6 13 20 27**	**3 10 17 24**	**1 8 15 22 29**
Mon	1 8 15 22 29	5 12 19 26	2 9 16 23 30	7 14 21 28	4 11 18 25	2 9 16 23 30
Tue	2 9 16 23 30	6 13 20 27	3 10 17 24	1 8 15 22 29	5 12 19 26	3 10 17 24 31
Wed	3 10 17 24 31	7 14 21 28	4 11 18 25	2 9 16 23 30	6 13 20 27	4 11 18 25
Thu	4 11 18 25	1 8 15 22 29	5 12 19 26	3 10 17 24 31	7 14 21 28	5 12 19 26
Fri	5 12 19 26	2 9 16 23 30	6 13 20 27	4 11 18 25	1 8 15 22 29	6 13 20 27
Sat	6 13 20 27	3 10 17 24 31	7 14 21 28	5 12 19 26	2 9 16 23 30	7 14 21 28

Chairman writes ...

My Dear Professional Colleagues,

My heartiest New Year Greetings to you all for a happy, prosperous, successful and peaceful 2013!! Let the New Year take our profession to newer heights and horizons, with our sincere pledge to rededicate ourselves to the cause and growth of the profession!

The Economy

Inflation continues in single digit, with slowing down of fresh investments, and industrial growth resulting in slowing economy. As experts observe, implications of slowing growth could be manifold such as high interest rates, high inflation and weakening currency which could turn the outlook for banks negative. Though, India has made significant progress in physical infrastructure segments like electricity, railways, roads, ports, airports, irrigation, urban rural water supply and sanitation, still it ranks only 84th in basic infrastructure as per the Global Competitiveness Index (2012-13) of the World Economic Forum. These developments are disturbing and needs attention and appropriate action at the policy level as wells as organisational level. Nevertheless given the huge demand for infrastructure development, accelerating savings and investment rates hold the key to revitalising the economy and achieving our objectives for growth.

The Companies Bill, 2012, was passed by the Lok Sabha on 18.12.2012. It is my sincere hope that on its enactment, it will enable the country to have a contemporary legislation for the growth and regulation of corporate sector in India. Certain features of the Companies Bill, 2012 such as corporate social responsibility, punishment for falsely inducing a person to enter into any agreement with bank or financial institutions, increase in the cap of members in case of private limited companies, one person company, conditions relating to public deposits, applicability of postal ballots are contemporary in nature and in line with global developments. However there are several concerns for the profession and the practice, with amendments to some of the provisions concerning appointment of auditors, rotation of auditors, increased responsibility and accountability and effects thereof etc!

Professional Social Responsibility

Our profession has been maintaining time tested qualities such as integrity, independence, ethics and contribution to public and corporate governance in all possible ways. All these qualities indirectly enabled us to discharge our social responsibilities to the best possible extent even in the backdrop of a modern competitive world, self interest oriented managements (in certain cases) and the like. In the backdrop of the increased importance to the ethical behaviour and corporate social responsibility, we should be a driver for the organisations (whatever size it may be) to discharge their social responsibilities so that developmental aspirations of each and every strata of the society could be taken care of with due care leading to the all pervasive economic development of our country.

Importance of Trust

According to an international human resources (HR) firm Right Management and Tucker International's study entitled Leading Across Cultures in the Human Age, following six competencies were identified as vital in an international business environment and how executives from various countries measure up (to those vital components)

- *Ability to adopt socially*
- *Demonstrate creativity*
- *Maintain an even disposition*
- *Respect beliefs*
- *Instil trust and*
- *Navigate ambiguity.*

Among the above, 'trust' is considered to be the bond which holds diverse teams together. Leaders who carry high trust to multicultural organisations get superior results by:

- *Clarifying (expectations)*
- *Listening*
- *Creating transparency and*
- *Practicing accountability.*

In order to acquire these skills which would make us trustworthy, one needs to experience it and internalise values apart from appropriate mentoring and serving under a leadership who would set an example for such trustworthiness. As professionals whether we are in practice or in industry, we have to win, retain and develop the trust of our stakeholders so that as a group we can contribute our competencies and strengths for the overall development of our nation and the society at large.

Theme Issue: Insurance and Risk Management

Insurance constitutes an important component of the Indian financial system which, not only contributes to streamlining the individual savings for economic productive use (through life insurance products) but also providing a risk management tool for various business enterprises for their business and operational risk management (through non-life insurance products). Accordingly this issue of our Newsletter has been devoted to the theme Insurance and Risk Management.

CA. Jayashree Narayanan in her article 'Risk Management – Perspectives' has attempted to provide an overview of the Enterprise Risk Management (ERM) Framework including its objectives, components and benefits and the inter relationship between risk management and corporate governance.

There are certain unique features of accounting in Insurance Companies such as revenue recognition, provisioning for outstanding claims, apportioning of management expenses between revenue portfolios etc., CA P.S. Prabhakar, in his article 'Accounting and Financial Reporting in Non – Life Insurance Industry' throws light on those intricate issues to enlighten us.

Similarly, CA Subhashni Giridhar discusses the issues relating to operational risk management and insurance in the other important segment of the financial sector of our economy viz., banking sector in her article 'Operational Risk Management and Insurance – A Banking Sector Perspective'. Based on the Basel II Report, the article covers types of risks, scope, uniqueness of operational risks in banking sector and the risk management process.

Like Non Life insurance business, the nature of life insurance business is unique with an active role being played by the actuaries.

MSVS M. Phanesh delves on key issues and aspects of relevant regulations that govern the estimate of the policy liabilities in his article 'A peek into the world of Life Insurance Policy Liabilities taking Basel II report as the reference point.

CA Balakrishnan, in his second and final part of his theme based article Financial Management has elaborated the key issues in personal financial planning, such as inter linkages between the phases of one's life and financial management (during those phases), need for financial inclusion and the macroeconomic importance of channelising such personal savings to economic development of the country.

Branch Visits

During December 2012 I had the pleasant privilege of visiting Tirunelveli, Tuticorin, Sivakasi and Pondicherry Branches of SIRC to review their activities and progress and address our members and students. The warmth and reception meted out by them to me was overwhelming, as was their concern for issues relating to the profession, practice and education!

CPE Programmes

SIRC and its Branches, continue to be active in conducting as many CPE Programmes as possible to enable our members to meet the CPE requirements for the Calendar Year 2013. SIRC has conducted CPE Programmes on the following themes and subjects to enable our members who could not complete their 2012 CPE quota. CPE Committee has extended the timeline up to 31.01.2013. Please complete your CPE requirements of 2012 before 31.01.2013.

- *Issues in Taxation of E Commerce*
- *Information Technology*
- *Corporate Laws*
- *FCRA*
- *Taxation*
- *Tamil Nadu VAT Act*
- *International Taxation*
- *Capital Markets*
- *Investor Awareness Programmes*

Memorial Lectures

As a tribute to our leaders who have laid a strong foundation for our profession, SIRC has conducted Shri S. Vaidynath Aiyer Memorial Lecture, Shri D. Rangasamy Memorial Lecture and celebrated the centenary of Shri K. Sadagopachari. Luminaries from public life have shared their wisdom amongst our members and general public in these lectures.

Students Activities

SICASA and its Branches have been active throughout the Southern Region by way of conducting academic and personality development and social outreach programmes to further the interest of the students pursuing Chartered Accountancy Course as well as the society at large. I would like to take the opportunity of wishing all the students who are awaiting their results "All the Best" for the Chartered Accountancy Final Examinations held in November 2012.

ICAI Elections 2012

I wish to thank our members for participating in the ICAI Elections 2012 and I congratulate the members who have been elected to the SIRC of ICAI and the Central Council from the Southern Region. I am confident that the new leadership would take the image of the ICAI and the CA Profession to newer heights.

Feed back

With a view to further improve the quality, contents and presentation, we solicit your valuable feedback on our Newsletter. I wish to seek your valuable cooperation and indulgence in promoting this Newsletter amongst your clients to show case their products and services through the pages of this newsletter.

Until next month to share my thoughts with you again, and wishing you all the very best for the New Year 2013, I remain,

Yours in professional service

CA. K. VISWANATH
kviswanath.sirc@gmail.com

SEMINAR ON INSURANCE

P. Brahmayya Memorial Hall
'ICAI Bhawan'
No.122, Mahatma Gandhi Road,
Nungambakkam, Chennai - 600034

CPE Credit 6 HOURS

Saturday, January 19, 2013 | Timings: 10:00 AM to 5:00 PM

Technical Sessions	Resource Person
Audit of Insurance Companies - Recent Developments	**CA. P S Prabhakar** Chennai
Valuation for Insurance Companies	**CA. R Srivatsan** Chennai
Insurance Sector-Regulatory Framework	**Shri. Ravi Seshadri T** Bangalore Vice President & Chief Compliance Officer, Bharati Axa
Risk Management	**CA. N Venkatakrishnan** Chennai

DELEGATE FEE: ` 750/-

Delegate fee by way of Cash or by Cheque / DD drawn in favour of **'SIRC of ICAI'** payable at Chennai shall be sent to SIRC of ICAI, ICAI Bhawan, No.122, Mahatma Gandhi Road, Nungambakkam, Chennai – 600034. Phone: 044-30210320; Fax: 044-30210355 ; Email: sirc@icai.in

SIRC CALENDAR JANUARY 2013 & FEBRUARY 2013

Contact: Dr. T. Paramasivan, Senior Deputy Director (Tech.) – ICAI - Phone: 044 – 30210361 / 320 – Email: sirc@icai.in

DATE and TIME	PROGRAM DETAILS	RESOURCE PERSON	FEE (`)	CPE CREDIT
Jan. 2, Wednesday 06.15 p.m. – 08.30 p.m	*CPE Study Circle Meeting on **CLIENT RELATIONSHIP MANAGEMENT**	**CA. Abraham Zachariah** Chennai	150/-	2 hrs
Jan. 3, Thursday 04.00 p.m. – 07.30 p.m	***INVESTOR AWARENESS PROGRAMME**		No Delegate fee	2 hrs
Jan. 4 & 5, Fri. & Sat. 10.00 a.m. – 05.00 p.m	*Workshop on **ENABLING SERVICE TAX PRACTICE**		1500/-	12 hrs
Jan. 9, Wednesday 06.15 p.m. – 08.30 p.m	*CPE Study Circle Meeting on **SEBI TAKEOVER CODE - 2012**	**CA. N.R. Sridharan** Chennai	150/-	2 hrs
Jan 16, Wednesday 06.15 pm - 08.30 pm	*CPE Study Circle Meeting on **COMPANIES BILL - 2012**	**CA. Ramanujam Raghavan** Chennai	No Delegate fee	2 hrs
Jan 18 -19, Fri & Sat 09.00 am - 02.30 pm	***BLOOD DONATION CAMP**	Details at page 12	NA	
Jan 19, Saturday 10.00 am - 05.00 pm	****PRACTICAL WORKSHOP ON XBRL**	Details at page 24	1200/-	6 hrs
Jan 19, Saturday 10.00 am - 05.00 pm	***SEMINAR ON INSURANCE**	Details at page 04	750/-	6 hrs
Jan 23, Wednesday 06.15 pm - 08.30 pm	*CPE Study Circle Meeting on **FORENSIC ACCOUNTING**	**CA. Madhu Sudhana Rao** Chennai	150/-	2 hrs
Jan. 25, Friday 04.00 p.m. – 07.30 p.m	***INVESTOR AWARENESS PROGRAMME**	Details at page 24	No Delegate fee	2 hrs
Jan 26, Satuday	***REPUBLIC DAY CELEBRATIONS & UNVEILING OF THE BUST OF CA. G.P. KAPADIA, FIRST PRESIDENT OF ICAI AT SIRC PREMISES**	Details at page 26	NA	
Jan 26, Saturday 06.30 p.m. – 08.00 p.m	***ASHOK KUMBHAT MEMORIAL LECTURE**	Details at page 20	NA	
Jan 30, Wednesday 10.00 am - 05.00 pm	*CPE Seminar on **COMPANIES BILL 2012**	Details at page 22	750/-	6 hrs
Jan 30, Wednesday 06.15 pm - 08.30 pm	*CPE Study Circle Meeting on **FOREIGN TAX CREDIT - IS YOUR CLAIM RIGHT**	**CA. S. Sudhakar** Chennai	150/-	2 hrs
Jan 31, Thursday	***V. SANKAR AIYAR MEMORIAL LECTURE**	Details at page 20	No Delegate fee	2 hrs
Feb 6, Wednesday 06.15 pm - 08.30 pm	*CPE Study Circle Meeting **RECENT DEVELOPMENTS - NBFC**	**CA. K. Bharathi** Chennai	150/-	2 hrs
Feb 8, Friday	***CHAIN Seminar on **MANAGING FAMILY BUSINESS**	Details at page 29		6 hrs
Feb 9, Friday 10.00 am - 05.30 pm	*CHAIN Seminar on **MANAGING FAMILY BUSINESS**	Details at page 29		6 hrs

** Programmes at "ICAI Bhawan", SIRC Premises, Chennai – 600034.*
*** Programme at IIT Lab, 3rd Floor, Annexe Building, ICAI Bhawan, SIRC Premises, Chennai - 600034*
**** Programme at ICAI Bhawan, 16/O, Millers Tank Bed Area, Bangalore-560 052.*

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Advt.

CA. Ms. Jayashree Narayanan
Bangalore
parjayn@gmail.com

Risk Management - Perspectives

I. Risk Management - Introduction

Risk Management – at a very fundamental level, we do this every day. The risks we come across are of varying types, of varying degrees, but we do face them and try to manage them each day to achieve whatever objective we have set for ourselves. In that sense, Risk Management has been around as a concept for a long time now and if we were to look at it, actually attracts very little special attention – it is integrated into the fabric of our life.

The focused study of risk management and other subjects in the context of doing business however is believed to have started much more recently and evolved in the 1940s and 50s. Early studies on risk management were focused on insurance and actuarial sciences. A study of how this evolved into Business Risk Management as we know today is interesting.

Corporate Insurance Buyers in organisations were tasked with the responsibility of identifying insurable assets and liabilities that needed coverage. They were also expected to monitor and do the needful to address ways to manage, monitor these insured risks within the Organisation. This, together with various management concepts that emerged/evolved in that era, led to the gradual broad-basing of risks from insurable risks to business risks in general. Since then, Risk Management has branched out into various aspects of business and is today handled as speciality subjects e.g. Enterprise Risk Management, Financial Risk Management, Information Technology Risk Management etc.

II. Risk Management Framework

Risk Management began in a 'silo'-ed manner typically at the operations or process level. Risks were known or identified by departments, operational teams but, in most cases limited to the department or team. There was not as much sharing of this information as to be able to connect the dots, look at interrelated risks and risks that would affect the Organisation as a whole. While the initiatives did yield some results for the Organisation, they were not necessarily optimal.

The view of risk management as an integrated one, across the various aspects of an Organisation's operations is called Enterprise Risk Management (ERM). When implemented with that intent, it is a thread which weaves across the various aspects of the Organisation - right from the Top – Board room matters and Strategy, to the grass root i.e. day-to-day management.

Multiple models for Risk Management have evolved over time. One of the most referred to model is that of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In 2004, The COSO presented the Enterprise Risk Management – An Integrated Framework. Extracts from the Framework are given below for understanding and reference.

Overall Objective and Definition

"The underlying premise of enterprise risk management is that every entity exists to provide value for its stakeholders. All entities face uncertainty, and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value."

The Framework with the above background, defines ERM as follows :

"Enterprise risk management is 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."

An Entity's objectives have been broadly categorised in the Framework into :

- Strategic
- Operations
- Reporting and
- Compliance

Components of an ERM Framework

- Internal Environment – The internal environment encompasses the tone of an organization, and sets the basis for how risk is viewed and addressed by an entity's people, including risk management philosophy and risk appetite, integrity and ethical values, and the environment in which they operate.
- Objective Setting – Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.
- Event Identification – Internal and external events affecting achievement of an entity's objectives must be identified, distinguishing between risks and opportunities. Opportunities are channeled back to management's strategy or objective-setting processes.
- Risk Assessment – Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed. Risks are assessed on an inherent and a residual basis.
- Risk Response – Management selects risk responses – avoiding, accepting, reducing, or sharing risk – developing a set of actions to align risks with the entity's risk tolerances and risk appetite.
- Control Activities – Policies and procedures are established and implemented to help ensure the risk responses are effectively carried out.
- Information and Communication – Relevant information is identified, captured, and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across, and up the entity.
- Monitoring – The entirety of enterprise risk management is

monitored and modifications made as necessary. Monitoring is accomplished through ongoing management activities, separate evaluations, or both.

Benefits of deploying an effective risk management framework

- Aligning risk appetite and strategy – Management considers the entity's risk appetite in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.
- Enhancing risk response decisions – Enterprise risk management provides the rigor to identify and select among alternative risk responses – risk avoidance, reduction, sharing, and acceptance.
- Reducing operational surprises and losses – Entities gain enhanced capability to identify potential events and establish responses, reducing surprises and associated costs or losses.
- Identifying and managing multiple and cross-enterprise risks – Every enterprise faces a myriad of risks affecting different parts of the organization, and enterprise risk management facilitates effective response to the interrelated impacts, and integrated responses to multiple risks.
- Seizing opportunities – By considering a full range of potential events, management is positioned to identify and proactively realize opportunities.
- Improving deployment of capital – Obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation

(Source : COSO-ERM Framework)

Other Risk Management/related frameworks/standards/guidelines including BASEL, ISACA's Risk IT and COBIT, The Risk Management Standard of the IRM, AIRMIC and ALARM, UK etc., also exist and echo similar views.

III. Risk Management and Corporate Governance

Risk Management has been recognised as an important component of Corporate Governance. International and Indian initiatives in the area of Corporate Governance have stressed on the need for an effective Risk Management Framework. Commissioned Studies, Guidelines and Listing Agreements of various Stock Exchanges have recommended/specified the need to have a risk management framework, the responsibilities of the Board of Directors, Audit Committees in this regard and the nature of disclosures required from Companies. To illustrate,

OECD Principles of Corporate Governance

"An area of increasing importance for boards and which is closely related to corporate strategy is risk policy. Such policy will involve specifying the types and degree of risk that a company is willing to accept in pursuit of its goals. It is thus a crucial guideline for management that must manage risks to meet the company's desired risk profile."

The Principles also recommend monitoring and disclosure of the company's objectives and foreseeable risk factors.

Narayana Murthy Committee on Corporate Governance

"Procedures should be in place to inform board members about the risk assessment and minimization procedures. These procedures should be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework. Management should place a report before the entire Board of directors every quarter documenting the business risks faced by the company, measures to address and minimize such risks, and any limitations to the risk taking capacity of the corporation. The Board should formally approve this document."

CII - Corporate Governance Recommendations for Voluntary Adoption

"The Board, its audit committee and its executive management must collectively identify the risks impacting the company's business and document their process of risk identification, risk minimisation, risk optimization as a part of a risk management policy or strategy. The Board should also affirm that it has put in place critical risk management framework across the company, which is overseen once every six months by the Board."

Clause 49 of the Listing Agreement

"Board Disclosures – Risk management - The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework."

It also requires the Management Discussion & Analysis to include discussion among other matters, on the Opportunities and Threats, Outlook and Risks and Concerns within the limits set by the company's competitive position.

IV. Risk Management - Practice Perspectives

Designing and implementing an ERM framework in an Organisation is an extremely critical activity. The inherent requirements for any project to be successful apply in this case too – clear vision, support from leadership teams, a strong project management team and tools, buy-in from the teams, etc., The other common factor is ensuring the sustainability of the activity post the initial project phase. Some of the matters specific to Risk Management are discussed below.

Should all Organisations consider Risk Management?

Yes and given that much of our economies runs on non-listed companies, particularly so. It is now recognised that when it comes to any matter, effective results are based on a combination of mandated and voluntary requirements. While there are mandated requirements with regard to risk management for listed companies, the business benefits are common to all types of Organisations.

While specific elements of the frameworks/guidance may not apply in exactly the same manner to all Organisations, the underlying principles certainly would. The extent and the manner in which these principles are applied is a decision each Organisation needs to make – not too little as to make it superficial and ineffective or too much as to make it an overkill and unsustainable.

Orientation to Risk Management

One of the key elements that comes to play in practice is the way risk management is understood in organisations or by practitioners. Is risk management about reducing risk alone? Or is it about doing that but also taking some risks where needed so the Organisation's objectives are met? In effect, arriving at a balanced assessment of what the risks are and how to handle them in the context of that specific Organisation?

Clearly as the preamble in the above Framework says, it is about understanding uncertainty and dealing with the risk and the opportunity that is presents vis a vis enhancing the Organisation's value.

This is a sentiment echoed in corporate governance frameworks as well. The South African King report on corporate governance for example, recommends 'risk should not only be viewed from a negative perspective. The review process may identify areas of opportunity, such as where effective risk management can be turned to competitive advantage.'

This understanding by the stakeholders

and also those tasked with say oversight or auditing responsibilities is critical to ensure that the right balance is achieved.

Attitude to risk/Risk appetite

Having said that, one of the areas that poses perhaps the most challenge in risk management is determining an Organisation's attitude to risk. Clearly it is intrinsically linked to the Organisation's objectives.

However what are the risks an Organisation should take and how much of it is and will also remain a subjective matter. The way the various people in the Organisation, from the Leadership to the operational teams, perceive risk needless to say has a significant impact on the way the same are managed. While this is relatively easy in respect of some categories of risk, when it comes to categories of risk that are either complex or where there is not much of data available, it poses a challenge.

Responsibility

A key question in the above deliberation is, at the end of the day, who is responsible for arriving at this portfolio on behalf of the Organisation? Clearly the leadership team has a critical role to play. It is responsible for defining and delivering on the stated objectives and charting the best possible course to achieve it. Virtually all Corporate Governance Frameworks place this responsibility on the Board of Directors and Executive Management.

One of the well recognised and accepted matters in any kind of decision making is that people's attitudes towards most matters may not be the same. That holds true for risk management as well. We often find that the perspectives of the Board of Directors, the Executive and the operational teams can be different. This could be for various reasons – the positions they occupy, access to information, individual orientations to risk, etc.,

The need for an Organisation is to be able to arrive at a reasonable consensus/ understanding across the various levels of personnel. This is critical for a successful deployment and sustenance of the risk management framework.

While this clearly requires the active involvement and participation of various organisational personnel, the Chief Risk Officer or any individual who works in a similar capacity and the internal auditor can play a significant role in this process. This can be by facilitating the process, creating awareness among the various teams in the Organisation, providing relevant inputs and arrive at the final framework.

One of the aspects that has been getting increased focus, largely due to the collapses in the corporate world, is the need to look at this in the context of the Organisation's long-term and short-tem objectives and not leave it to be determined/ influenced by short gains either to the Organisation (by way or financial performance for example) or to key individuals (by way of performance incentives).

The CII task force team which produced the Corporate Governance Recommendations for Voluntary Adoption addresses this as follows - "While the policy need not be made public for reasons that confidential information ought not to be published as would compromise competitiveness, *the fact that the risk management strategy has been implemented and responsibility allocated, as certified by the CEO and countersigned by the Chairman of the Audit Committee, would act as a deterrent to those who may take unjustifiable risks with the objective of increasing compensations and incentives by short-term individual performance.*

V. Concluding Thoughts

Risk Management is understood and acknowledged as needed for organisations. However, in practice the extent of buy in, adoption and effectiveness remain fairly diverse and many believe, relatively limited.

Some of the factors that have contributed to this include:

- A compliance approach to risk management instead of viewing it as a business aid.
- The Organisation structure and decision making process – handled by a select few who do not see the need for a formal structure.
- Concentration of this activity at the top and middle management levels of an Organisation instead of percolating it to all levels of the Organisation.
- Over-reliance on frameworks and models and tools.
- The people element and the challenge in finding the right balance between process and people based assessment and response to risk.

Recent events such as the Financial Crisis and failures in the corporate world have brought increased focus on this topic. While there is recognition of the fact that the failures were due to various factors including fundamental corporate governance issues, questions have also been raised in some cases about the manner in which risks were managed by these Organisations.

Given the fundamental nature of risk, there cannot be any fool-proof approach, frame-work that will protect Organisations. Risk Management remains and will continue to remain a part of the overall manner in which an Organisation is governed. Its success or failure will therefore depend to a large extent on the same factors that contribute to good governance in an Organisation.

In the words of Peter L. Bernstein "The word 'risk' derives from the early Italian risicare, which means 'to dare'. In this sense, risk is a choice rather than a fate. The actions we dare to take, which depend on how free we are to make choices, are what the story of risk is all about. And that story helps define what it means to be a human being." Or in this case, well governed Organisations. ■

OPPORTUNITIES FOR YOUNG PROFESSIONALS

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ACCOUNTING AND FINANCIAL REPORTING IN NON-LIFE INSURANCE INDUSTRY

Accounting in the non-life (general) insurance industry is very different from accounting in other industries, which are more or less uniform. Insurance accounting employs unique concepts in revenue recognition (factoring reinsurance impacts), provisions for outstanding claims, apportioning of management expenses between revenue portfolios, demarcation between policyholders' funds and shareholders' funds etc.

The financial statements of a general insurance company consist of individual portfolio-wise (Fire, marine & Miscellaneous) Revenue accounts, Profit & Loss account, Profit & Loss appropriation account and the Balance Sheet. The consolidation of the 'Revenue Accounts' can be compared to a 'Trading Account' or a 'Manufacturing Account' of a trading or a manufacturing enterprise, as the case may be. Such 'revenue accounts' are the ones that reflect the conduct of the core insurance operations, the resultant effect of which directly augment or deplete the 'Policyholders Funds'.

On the Credit side of a typical Revenue account, we will have Gross Direct Premium written plus Reinsurance acceptances (from other insurers) less Reinsurance premium ceded (given away) to other insurers. The resultant figure is known as 'net premium'. This figure will be adjusted with either a 'reserve strain' or a 'reserve release', as the case may be.

Reserve strain will occur if there has to be an additional provision of Unexpired Risk Reserve (discussed below) by reason of increase in the net premium during the accounting period over that of the earlier accounting period. Reserve release will occur if there is a reduction of net premium during the accounting period as compared to that of the earlier accounting period.

Here, a short mention on Reinsurance is needed. No insurer, however big he is, can afford to retain all the risks that he underwrites and it is extremely important that an insurer 'spreads' his risks. So, insurance of insurance becomes important. Every insurer will 'cede' some portion of his business and many would 'accept'. There are specialized reinsurance companies in the world. (In India, we have General Insurance Corporation of India - a PSU, as the national re-insurer. Every company is mandated to 'reinsure' a specified portion of their underwritten premium to GIC). Almost all the companies have reinsurance arrangements with major reinsurance markets located in UK, Europe and US. Long before the term 'globalization' was even coined, insurance became a truly global business. It is the concept of reinsurance that multiplies the risk-bearing capacities of the insurers several fold, gives truly global character to the business and enables spread of risks across nations, weaving an unseen, incomprehensibly massive web of business network.

The investment income earned on the Policyholders Funds will also find a place in the Credit side. (The policyholders' funds comprise of the URR, Outstanding Claims provision and Premium Deficiency, if any – all of the concepts explained below).

On the debit side, we will have commission paid on direct premium written and on reinsurance acceptances less commission received from reinsurance premium ceded. (Yes, reinsurance is the only business in which commissions are received / paid between the insurers themselves). Also, we will have "Incurred Claims" – also discussed below when we discuss Outstanding Claims. Besides the above, the segmented portion of Management Expenses will also be found in the debit side.

General Insurance Finance is riddled with unique and specialized conceptions such as heavy influence of the bottom lines by various estimations, statutory limitation on management expenses, relationship between the capitalizations and risk bearing capacities, protection of policyholders' interests vis-à-vis expectations of stakeholders etc.

Behind the facade of a seemingly exact figure shown in the bottom line, in a General Insurance Company's financials, lo and behold! there are estimations galore! Provisions for Unexpired Risks, provisions for outstanding claims (not only of the company but also that of the co-insurers' and re-insurers' as well), Premium Deficiency, IBNR, IBNER et al.

Liberal estimations of these reserves offer comfort for regulators, who are the custodian of policyholders' interests. Steady building up of such reserves generally, augurs well for the health of the companies. Of course, in private insurance companies, the pinch will be felt beyond profitability, as the consequent impact will also be on the valuation of their stock. Hence the profit-conscious managements, representing shareholders' interests would like to keep these 'reserves' at the minimum possible levels. Understandable conflicts.

World over, the legislations governing the insurance finance and the regulators take due care only to err on the safe side, essentially to 'protect' the policyholders' interests. Though, in a few countries the regulations are not very extant, in some, they are and even indeed rigid. It is the extent of such rigidity that sometimes creates fissures between the interests of the stakeholders and policyholders.

In our country too, the Insurance Act, 1938 contained provisions on financial disclosure requirements, solvency margin parameters, formats etc. and a cursory glance would reveal that they were well thought out diktats, and rightly focused on protection of policyholders' interests

even in the then open-market regime. The provisions of the Act were scrupulously followed by the industry, which had over 108 private companies prior to the nationalization of the industry in early seventies and also faithfully followed by the PSU insurers, in the post nationalization scenario. No one had any serious complaints.

Come IRDA, we saw radical and fundamental changes not only in accounting norms, disclosure requirements, formats etc. but also in very concepts of Revenue recognition vis-à-vis provisioning for Unexpired Risk Reserves (URR).

Revenue Recognition and URR

For time immemorial, the URR provisioning was done on the basis of percentages of "Net Premium" and for this ad-hoc percentages (possibly arrived at after considering international practices and historical parameters) indicated in the Solvency Margin requirements {Sec. 64V(1)(ii)(b)} were followed. They were 40% for Fire, Marine Cargo & Misc and 100% for Marine Hull. However, as the Income Tax Act & Rules, allowed insurers to provide up to 50% for Fire & Misc and 100% for Marine, many insurers (and, after nationalization, all PSU insurers) took advantage of the same and so provided.

Essentially, this meant that the companies recognized the revenue, by making adjustments for URR in their Net Premium Income (Premium less reinsurances), calling this as Net Earned Premium Income.

IRDA set out to change this. In its financial regulations, it was required that the companies recognized the Premium income over the contract period or the period of risk. Which, simply meant, proportionately. Period. For example, if Rs.3,650/- is collected for a fire insurance policy that commenced on 18th Sept, 2012 to expire on 17th Sept, 2013, the revenue recognisable is Rs. 1,950/- for the financial year ending 31st Mar, 2012, as the policy runs its course for 195 days out of 365 days in the current financial year. The balance of Rs. 1,700/- is to be kept as unearned premium, as it is attributable and allocable to the succeeding accounting periods. Obviously, in the days of high-end computers and sophisticated methods of accounting, any percentage ad-hocism in provisioning was not necessary and that the revenue accounting could be almost realistic. Of course, 50% of the net premium of the year was prescribed as the floor minimum.

Though there are some issues in such proportionate reserving of URR like the difficulty in making it possible for Reinsurance Inward acceptances, non-annual policies (like short-term policies of Marine Cargo, Travel insurance or long-term policies), automobile policies which have the Third Party risks embedded – where there is no connection between pricing and the claim consequences etc., these are minor as compared to the overall standardization requirement.

Provisions for Outstanding Claims

The Claims cost (also known as Incurred Claims) of a company is the actual claims paid less adjustments for reinsurance recoveries on them and **provisions for claims outstanding** as on the date of financial reporting.

On the Direct side, the operating offices of the insurance companies are expected to make the initial provisions at the time of claims reporting, based on the available information with them. The sum total of such 'direct' figures, tempered by the Reinsurance recovery adjustments and added by the Outstanding Claims figures received from the Reinsurers, in respect of 'acceptances' would be the total 'net' outstanding claims, which will form the integral part of the "Claims Cost".

The Provisions for Outstanding Claims very much form part of Policyholders funds and constitute a significant portion of the major cost for the insurance companies. However, these are estimations based on information in possession of the insurance companies on the date of closing the books. The information could include surveyor's assessments, spot survey reports, insurers' guesstimates based on the available documents and sometimes even simply on the data given, not given or short given by the claimants themselves in the claim forms.

There are really no hard and fast rules on how to make these provisions and it is left to the discretion and judgment of the claims personnel as also pruning by the managements and hence unlike the URR, which will be a structured estimate, the provision for outstanding claims will always be an unstructured estimate. This not only significantly influences (sometimes, even unduly) the bottomlines but also has the potential to distort the company's liabilities in the Balance Sheet on a given date.

Next, the offspring of the Provision for Outstanding Claims, called IBNR that should be valued actuarially. IBNER (Incurred but not enough reported) is an extension of IBNR.

Policyholders Vs Shareholders:

The definite distinction between the two classes of stakeholders viz., policyholders and shareholders has a statutory recognition with insertion Sec. 11 (1A) and 11 (1B) of the Insurance Act and IRDA regulations on financial reporting, very wisely, have mandated that the investment incomes attributable to the policyholders funds should be taken to the credits of the respective revenue accounts to reflect a truer picture of the underwriting results.

Concept of Premium Deficiency

A new concept called 'Premium Deficiency' was brought in by IRDA. Again a measure for augmenting policyholders' funds, it mandated that if the sum of expected claims costs, related expenses etc. exceed the URR, the said excess is to be recognised as Premium Deficiency. Seemingly over protective of policyholders funds, for long, this concept of this Premium Deficiency and the methodology of providing the same have been remaining rather vague and IRDA is now mulling issuing a clarificatory circular on this.

Procurement Cost aka Commission

It is wisely said that there is nothing called free lunch. This is of pronounced significance in insurance business. Insurance, as a product, is never bought but only sold. To procure insurance business, it costs. Hence, the word 'commission' has a very honourable import in this industry. The agency force of the industry is structured and IRDA's regulations on recruitment, appointment and remuneration etc. are rather professional. The other variants like referral fee, brokerage etc. paid to the various middlemen will all come under the common terminology of 'Commission' only. The practice of paying 'commission' is not restricted to the procurement of direct business but is internationally prevalent amongst the various insurance companies, for the reinsurance businesses they accept and cede. (In India even, the obligatory cessions to GIC are on 'commission' basis

only.). Besides, the 'brokerage' payable to international reinsurance brokers also comes under this broad terminology 'Reinsurance Commission'.

An Indian insurance company will receive commission from the reinsurance companies for the placements (cessions), and will pay commission for the reinsurance acceptances to the reinsurers. Both the cessions and acceptances will be on predetermined annual contracts, known as treaties and also on specific placements known as Facultative transactions. Unlike the direct insurance commission, treaty reinsurance commissions are highly unstructured and entirely dependent upon the security rating the reinsurance companies enjoy, the spread of portfolio on the table, negotiating skills of the parties etc.

In addition to the commission and brokerage normally payable, there are also 'over-riding commission' and 'profit commission'. The former will arise as an added incentive when the business volume exceeds expectations and the latter will depend on the performance of specific treaties.

Management Expenses

Insurance industry has several unique features and one of the important such features is that it is the only service industry which has a statutory cap on the management expenses. Sec. 40C of the Insurance Act read with Rule 17E of the Insurance Rules merrily prescribe a complicated formula to arrive at a percentage of the maximum management expenses that a general insurance company can afford to expend. The age, size of the company as well as its composition of portfolio all will matter in determining the percentage. If we seek to know as to what could be the idea behind such a statutory limitation, we might perhaps come with the following analogy. An insurer is in a business that collects money from many to create a fund out of which the losses of those unfortunate few are compensated and in a sort of a 'fiduciary' position. It will only defeat the purpose of the spirit of communion, if the conduct of the business is done in an extravagant manner and an unreasonably large part of the 'fund' is frittered away as the cost of doing the business.

The aforesaid limitation of expenses is on the Gross Direct Premium in India. However, when the apportionment of expenses are made between Fire, Marine & Miscellaneous, they are done on the Gross Premium written plus the RI premium accepted and after giving appropriate weightage.

Readers may appreciate that whatever mentioned so far relate only to the concepts pertaining to Revenue accounts and we shall see about those aspects that are Balance Sheet centric sometime in the future. ■

BLOOD DONATION CAMP

OUR SOCIAL RESPONSIBILITY – DONATE BLOOD – SAVE LIVES

Chartered Accountants, their family members and students of Chartered Accountancy have been responsible for saving many lives by donating blood. During the last fifteen years, SIRC of ICAI has conducted more than thirty blood donation camps and more than eight thousand units of blood have been collected. In addition, we have been able to provide the names of hundreds of Blood Donors for emergency requirements. Thousands of our fellow human beings have benefited from these Camps.

We are organizing the two day blood donation camp on Friday & Saturday January 18 and 19, 2013. This camp is being organised at the instance of Hemophilia Society-Madras Chapter and by the Rotary Central TTK VHS Blood Bank, Chennai. Lions Club of Anna Nagar II Avenue and Lions Club of Madras Metro West, are co-sponsors of the Half yearly event. The details are given below:

Days	:	**Friday & Saturday**
Dates	:	**January 18 & 19, 2013**
Timings	:	**9.00 a.m. to 2.30 p.m.**
Venue	:	Air-conditioned Room at the ICAI Bhawan at No. 122, Mahatma Gandhi Road, Nungambakkam, Chennai – 600034
Eligibility	:	Any person 18 years and above but below 60 years, with a minimum weight of 50 kgs. The donor should not have donated blood after 17th October 2012 (Any earlier date is acceptable)
Registration	:	Please register early giving your suitable date (Jan 18 and 19, 2013) and preferred time (e.g. 09.00 a.m., 09.30 a.m., 12.30 p.m., etc.) with any of the following:

Name		Phone Nos.
1. SIRC of ICAI	:	3021 0320 / 3021 0321
2. Hemophilia Socitey – Mr. S. Vaidyanathan	:	2254 1652
3. Dr. J. Balasubramaniam	:	2474 2818 / 2254 2829 / 9444038048
4. CA. G. Subramanian	:	2835 033 / 28350955 / 9884269657
5. Lion CA. V. Thulasidharan	:	9884029712
6. Lion CA. B. Ramana Kumar	:	3914 5105 / 98411 13024

You can also register through email at sirc@icai.in; chairmansirc@gmail.com; hsmc1988@gmail.com. A certificate in appreciation will be issued to every donor at the camp venue itself. A donor card, with blood group and date of donation will be issued to every donor, within 2 weeks of the camp.

Since you know the value of this noble gesture, we request you to kindly encourage and register other eligible relatives, friends & neighbours to enable us to reach a milestone in blood collection.

(EARLY REGISTRATION WILL BE HELPFUL)

DO NOT FORGET JANUARY 18 AND 19, 2013

LET US SAVE VALUABLE LIVES BY DONATING BLOOD

CA. Subhashni Giridhar
Mumbai
subhagiri2000@yahoo.com

OPERATIONAL RISK MANAGEMENT AND INSURANCE – A BANKING SECTOR PERSPECTIVE

Introduction

New avenues for the bank has opened up they have brought with them new risks as well. Operational risk management provides a logical and systematic means of identifying andcontrolling risk.

What is Risk?

Risk means probability of the occurrence of an unpredictable contingent event which may result in loss/gain or randomness in cash flow.

Risk has the potentiality of the events (expected and unexpected) that may have an adverse impact on the Bank's capital or earnings.

What are the types of risks in Banking Sector?

Risks and uncertainties form an integral part of banking. Each transaction that the bank undertakes changes the risk profile. It is essential for the banks, to ensure that the risks are properly identified,effectively controlled and rightly managed.

Risks in Banking can be broadly classified as:

I. Inherent Risks

II. Control Risks

III. Regulatory Risks

IV. Environmental Risks

I. Inherent risks are of three types:

Credit Risks, Market Risks and Operational Risks.

i) **Credit Risk:** are associated with losses due to erosion in the credit quality.It involves inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions.

Examples:

- Interest or principle not paid by the borrower (Direct lending).
- Funds not paid on crystallization of liability (Guarantee or Letter of Credit)

ii) **Market Risk:** Market Risk may be defined as the possibility of loss to bank caused by the changes in the market variables. It is the risk to the bank's earnings and capital due to changes in the market level of interest rates or prices of securities, foreign exchange and equities, as well as the volatilities, of those prices.

a) **Liquidity risk:** – Liquidity risk arises in the funding of lending, trading and investment activities. It includes both the risk of unexpected increases in the cost of funding an asset portfolio at appropriate maturities and the risk of being unable to liquidate in a timely manner at a reasonable price.

b) **Interest Rate Risk:** refers to potential impact on Market Value of Equity, caused by unexpected changes in market interest rates.Bank's core business is deposit taking and lending in both rupees and foreign currencies, as permitted by the Reserve Bank of India. These activities lead to interest rate risk.Changes in interest rate affect earnings, value of assets, liability off-balance sheet items and cashflow.

c) **Forex Risk:** is the risk that a bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency.

d) **Country Risk:** is the possibility that a country will be unable to service or repay its debts to foreign lenders in a timely manner. In banking, this riskarises on account of cross border lending and investment. The risk manifests itself either in the inability or the unwillingness of the obligor to meet its liability.

iii) **Operational risks:** relate to losses resulting from inadequate or failed processes, people or external events.

Examples:

- People turnover, skill competency (People risk).
- Violation of limits, money laundering (Process risk).
- System failure, communication failure (System risk).
- Non-compliance to laws (Legal and regulatory risk).
- Loss of reputation (Reputation risk).
- Unanticipated Changes (Event risk).

II. Control risks

Control risks arise out of inadequate control systems, deficiencies/gaps and/or likely failures in the existing control processes. The control risks could also be classified into low, medium and high categories.

III. Regulatory risks

Many Banks, having gone for public issue, have a greaterresponsibility and accountability. Thisentails multiplicity of regulatory controls. As banks deal withpublic funds and money, better governance required hence they are subject to

various regulations. The very many regulators include Reserve Bankof India (RBI), Securities Exchange Board of India(SEBI), Department of Company Affairs (DCA), etc. In addition to this, banks should ensure compliance of theapplicable provisions of The Banking Regulation Act. TheCompanies Act, etc. Thus all the banks run the riskof multiple regulatory-risks which impedes free growth ofbusiness as focus on compliance of too many regulations utilizes the time for developing new business.

IV. Environmental risk

With the economic liberalization and globalization, in the banking field more national and international players are operating the financial markets. Consequent to this environmental change, the banks are exposed to the environmental risk.

What is Operational Risk?

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events.Itis the second biggest risk category after credit risk, in the field of financial services.It is the risk of loss at a specified confidence level. There are two components to this type of risk – frequency and severity.

Operational risk is the risk that is not inherent in financial, systematic or market-wide risk. It is the risk remaining after determining financing and systematic risk, and includes risks resulting from breakdowns in internal procedures, people and systems. Operational risk is an integral part of the strategic planning, business management and enterprise risk management processes.Operational risks be treated as a separate risk category in banks; Banks experience serious material or reputational losses or may be threatened in their existence when operational risks materialize.

Definition: Operational Risk - Basel II

Operational risk has been described as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.This definition includes legal risk, but excludes strategic and reputational risk."

To consider a risk as an operational risk, it should be:

- any event that disrupts the normal flow of business processes and
- whichgenerates financial loss or damage to the image of the bank (although the latter outcome has been explicitly excluded from the definition of the Basel Committee, it still remains a major concern).

Scope of operational risk / Classification of operational risks

1. **Internal Fraud and External Fraud** – these two categories include similar types of losses due to acts intended to defraud, misappropriate property or circumvent regulations, the law or company policy. Diversity and discrimination events areexcluded. To be considered as an internal event the act must include at least one partyinternal to the bank.

Examples

Internal Fraud-bribes, unauthorized transactions, theft ofassets, insider trading (not on firm'saccount) and embezzlement.

External fraud – theft and fraud and hacking into the information security systems.

2. **Employment Practices and Workplace Safety** – the category refers to lossesresulting from acts inconsistent with employment, health or safety laws or agreements, from payment or personal injury claims, or from diversity/ discrimination events.

Examples

Slip-and-fall accidents and worker's compensation, safe environment, employee compensation claims

3. **Damage to physical assets** – covers losses arising from loss or damage to physicalassets from natural disasters, such as hurricanes or other events, including terrorist acts.
4. **Business disruption and system failure**–this category includes losses arising from disruption of business or system failures, such as telecom, telecommunications and hardware and software.
5. **Clients, Products and Business Practice-–** includes losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), breach of privacy, lender liability, insider trading, and disputes regarding advisory activities, market manipulation, improper trade, product defects and account churning.
6. **Execution, Delivery and Process Management-** covers losses from failed transaction processing or process management, from relations with trade counterparties and vendors, such as missed deadline or responsibility, delivery failure, incorrect client records, missing legal documents. data entry errors, accounting errors, failed mandatory reporting andnegligent loss of client assets.
7. **Other types of operational risk:** the transfer risk, the use of improper methods and formulas risk, the process risk, the staff risk, the legal risk, the reputation risk, the natural catastrophe risk, the marketing risk, the loss risk, the risk of not achieving the estimated profit because of the fiscal system or to the regulations changes, the technological risk, the bankruptcy risk because of the mechanismsand staffthat can support the business.

Exclusions:

The Basel II excludes, strategic risk - the risk of a loss arising from a poor strategic business decision. **Reputational risk**, is a type of risk related to the trustworthiness of business, is seen as potential consequences of operational risk events. Damage to a firm's reputation can result in lost revenue or destruction of shareholder value, even if the company is not found guilty of a crime.

What is different about Operational risk?

Operational risk is managed to keep the losses within tolerable limits - the amount of risk manageable in the process of reaching their goal.

- It is often difficult to identify it from management information and reporting systems:

  – P&L – explicit, e.g. fraud

  – P&L – implicit, e.g. Operational Risk amounts mixed with other expenses such as consultancy fees (indirect losses); Operational Risk in trading or credit losses

  – Not in P&L – lost future revenues; project failure or delay.

- Operational Risk is difficult to identify and assess because it's

a 'soft' risk which goes beyond transactions or process.

- It is difficult to control - people and external events (e.g. fire, flood, pestilence, business environment)
- It is risk-based, rather than control-based.
- Operational Risk is not used to generate profit e.g. credit risk is exploited by lending institutions to create profit, market risk is exploited by traders and fund managers, and insurance risk is exploited by insurers.

What is Operational Risk Management(ORM)?

The essential functions of risk management are to identify, measure and more importantly monitor the profile of the bank.It is the process of optimizing the risk control relationship in the context of cost-benefit analysis.

Risk Management system is the pro-active action in the present for the future. Managing risk is managing the change before the risk manages.

Operational Risk Management consists of –

i) Management - Operational risk management is as important as credit and market risk

ii) Risk Appetite - Developing risk appetite for operational risk can be challenging -

iii) Policies- Should outline the bank's approach to identifying, assessing, monitoring and controlling/ mitigating operational risk.

Operational Risk Management Toolbox

1. Loss data collection,
2. Programs, risk and controls, self-assessments,
3. Scenario analysis activities,
4. Key risk indicators and
5. Powerful reporting

OBJECTIVES OF OPERATIONAL RISK MANAGEMENT PROCESS

The objectives of the Operational Risk Management processincludes protecting people, equipment and other resources, while making the most effective use of them, preventing accidents, and in turn reducing losses. In turn, by minimizing the risk of injury and loss, it ultimately reduces costs. Thus, the fundamental goal of risk management is to enhance the effectiveness of people and equipment by their efficient utilization.

The first step in the process of monitoring operational risk is to establish a **risk 'x'** which is based on an analysis of business processes, which is to be correlated with the typology of operational risks.

For each event, risk is assessed in terms of:

- Probability of occurrence,
- Resulting loss in case of realization.
- Finally, the map would not be complete if it did not come with the **identification of key risk indicators:** these are quantifiable elements that may increase the likelihood of the occurrence of a risk.
- To identify sensitive areas of activity in order to put in place appropriate controls. It is then time to collect the observed incidents in a historical database, which allows to evaluate the actual losses caused by operational risks (loss data).

Operational Risk Management process comprises of the following:

1. **Risk Definition and classification (Already discussed above)**

2. **Risk Identification -** Organization should identify and assess the operational risk inherent in all material products, activities, processes and systems. Considers both internal factors and external factorsthat could adversely affect the achievement of the organization's objectives.

   The evaluation starts with a definition for the operational risk politics and the development of the common instruments for protection.

3. **Risk Assessment:** should ensure that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is adequately assessed

4. **Risk Management of measures/ Quantification -** it involves the establishment of the analytical instruments based on actual data, which have as main goal the determination of the financial impact on the organization. it supposes different business comparisons, qualitative versus quantitative and different needs of the management

5. **Risk Monitoring -** Organization should implement a process to regularly monitor operational risk profiles and material exposures to losses. In addition to monitoring operational loss events, banks should identify appropriate indicators that provide early warning of an increased risk of future losses. Such indicators should be forward looking and could reflect potential sources of operational risk.

6. **Risk Control -** Make, analyze control measures and make control decisions, implement risk control

Operational risk control

The implementation of control measures and action plans then results from a compromise between enforcement cost and obtained risk level.

7. **Risk Mitigating /Treatment**

   - Avoid risk — Change plans to circumvent the problem;
   - Mitigate risk; — Reduces impact or likelihood (or both) through intermediate steps;
   - Accept risk — Take the chance of negative impact (or auto-insurance), eventually budget the cost (e.g. via a contingency budget line);
   - Transfer risk – Insurance i.e. Exchange of unknown financial impact of specifiedevents to a third party for a known financial cost.Outsource risk (or a portion of the risk - Share risk) to third party/ies that can manage the outcome. This is done e.g. financially through insurance contracts or hedging transactions, or operationally through outsourcing an activity. Outsource risk (or a portion of the risk - Share risk) to third party/ies that can manage the outcome. This is done e.g. financially through insurance contracts or hedging transactions, or operationally through outsourcing an activity.

8. Risk Reporting, Supervise and review and the Role of Communication and Information Monitoring.

Difficulties/ Taxonomy in Operational Risk Management

One reason that operational risk is so hard to manage is that it is not easy to develop a workable classification scheme, or taxonomy, for this type of risk. In order to manage operational risk through astructured process, it is important to have a mutually exclusive and exhaustive list of risk categories. **What makes this such a challenging process is that every operational failure has three dimensions: contributory factors, events and consequences.**

Causes		Effects	
Contributory Factors	**Events**	**Consequences**	
Inadequate segregation of duties	Fraud	Human Assets	**Direct Losses**
Insufficient Training	Unauthorized activities	Physical Assets	
Lack of Management supervision	Sales and business activities	Monetary (including legal)	
Inadequate auditing procedures	Execution and processing errors		**Foregone Income**
Inadequate security measures	Accidents	IP Assets	
	Systems	Reputation	
Poor Systems Design	Acts of nature	Business Interruption	

The development of a method for monitoring operational risk, however, faces many internal obstacles, whether psychological or organizational:

- The staff focus is on cross-market projects: IAS (International Accounting Standards), "credit risk" part of Basel 2.
- The subject appears vague and not quantified, which makes it difficult to grasp.
- Several departments (Secretariat, legal...) already handle similar activities and view with suspicion projects that would cross the boundaries of their field of competence.
- The reporting and monitoring tasks mean an extra burden for operational staff.
- Finally, management itself may tend to minimize the impact of operational risks, as they always come with a "human error" side that may engage the liability of senior managers, all aspects they would prefer to ignore.

Levels of Operationalrisk Management

1) **Time critical:** 1. Assess the situation. 2. Balance the resources. 3. Communicate risks and intentions. 4. Take action and monitor for change.

2) **Deliberate:** 1.Identify hazards 2.Assess hazards 3.Make risk decisions 4. Implement controls 5.Supervise

3) **InDepth/Strategic:** 1. Establish context, 2.Risk assessment - Risk identification, Risk analysis and Risk evaluation, 3.Risk treatment 4. Monitor and review

Insurance as an Operational Risk Management Tool

Modern Operational Risk Management uses actuarial science as its foundation: a method for calculating expected loss (cost) and unexpected loss (risk), which can be used to optimize risk-reward and risk-control in the context of cost-benefit analysis. By analyzing losses in well-defined categories, rather than individually, it is possible to develop a systematic process for optimizing the trade-offs between risk reward and risk-control.

Insurance covering operational risks come in a variety of forms some of which are as follows:

1. **Fidelity/Bankers Blanket Bond –** provides cover against dishonesty or default on part of an employee as well as fraud and forgery. It may include damage to physical property, counterfeit currency and trading losses.
2. **Electronic Computer Crime –** provides cover against computer failure, viruses, data transmission problems, forged electronic funds transmissions etc.
3. **Professional Indemnity –** provides cover against liabilities to third parties for claims arising out of employee negligence while providing professional services / advice to clients.
4. **Directors and Officers Liability –** covers the personal assets of directorsagainstclaims arising from legal actions arising from the performance of their duties.
5. **Employment Practices Liability**
6. **Non-Financial Property –** covers buildings etc.
7. **Unauthorized Trading –** a relatively new product covering losses similar to the notorious events experienced at Barings.
8. **General & Other Liability –** covers public liability, employer's liability, motor fleet liability etc.

Direct Benefits of insurance	**Indirect Benefits of Insurance**
Reduces financial impact of loss.	Loss control and risk management services provided by insurers
	External monitoring and investigation of risks by insurance company
	The cost and availability of insurance acts as incentive to reduce losses.
	Causes awareness of the risks, must make-decisions about what to retain and what to transfer

Concerns regarding insurance for Operational Risk Management

Assuming there is a need for capital regulation to monitor operational risk in banks the nextquestion is how the regulators should treat insurance relative to capital. A major concern will be that iforganization's decision to buy insurance is not controlled, it would lead to avoidcapital regulation if a reduction of the capital charge is also allowed. Insurance contracts can act as a substitute for capital, to some extent but should not lead to capital arbitrage. The use of insurance should be reflected in the capital requirements and insurance coverage should only be allowed to reduce the capital charge to a limited extent.

Self-insurance is a risk management method in which a calculated amount of money is set aside to compensate for the potential future loss.

If self-insurance is approached as a serious risk management technique, money is set aside using actuarial and insurance information and the law of large numbers so that the amount set aside (similar toan insurance premium) is enough to cover the future uncertain loss.

Transferring operational risk through insurance is problematic as a risk management tool.

For example:

- Blanket cover would not be available, leaving unforeseen events uncovered.
- Exclusions could deny payment. Delays in payment, if legal proceedings take place for years, could put firms at risk.
- The absence of sufficient and appropriate data would make pricing the risk difficult.
- Risk transfer may lead to moral hazard, the abandonment of responsibility for risk management.

Although insurance is a means of mitigating the consequence of operational risk losses, it does nothing to enhance control of the risk itself.

Benefits of Operational Risk Management:

- Reduced regulatory capital
- Reduction of costs
- Sustained risk awareness at all levels in your organization
- Transformation of incident driven management into risk/reward management
- improved insight in performance of recovery departments (legal, security, etc)
- Reduction of operational loss
- Lower compliance/auditing costs
- Early detection of unlawful activities
- Reduced exposure to future risks
- Accept risk when benefits outweigh the cost
- Accept no unnecessary risk
- Anticipate and manage risk by planning
- Make risk decisions at the right level.

Role of CAs in Operational Risk Management of Banking companies

- **As Branch / Central Auditors:**
- Evaluating the risk management processes and providing assurance on its design and effectiveness..
- Providing assurance that risks are correctly evaluated.
- Evaluating the reporting on the status of key risks and controls.
- Reviewing the management of key risks, including the effectiveness of the controls and other responses to them.
- **As Consultants**
- **Facilitator in Management Activity:** Chartered Accountants can undertake the role as a facilitator, as their skills will help to inspire and provoke management into effective identification and analysis of risks and controls and to organise the results of their brainstorm into a structured view. This may include advice in ' emergency situations'
- **Educational role:** Chartered Accountants may support management by imparting appropriate risk and control skills and techniques so that managers are better equipped to undertake their own role effectively. This provides long-term added value by improving skills in risk and control issues.
- **An Advisory role:** Chartered Accountants may offer specific advice on particular risk and control issues (including development of new systems or redevelopment of existing systems).

Conclusion

Operational risk management is not a complex process, but does require individuals to support and implement the basic principles on a continuing basis. Operational risk management is a powerful tool for increasing effectiveness and reducing accidents. The Operational risk management process is accessible to and usable by everyone in every conceivable setting or scenario. When properly implemented, Operational risk management will always enhance performance. ■

Shri. MSVS Phanesh
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A PEEK INTO THE WORLD OF LIFE INSURANCE POLICY LIABILITIES

Introduction:

Life insurance is one of the most complex businesses primarily due to long term nature of the business. A life insurance company typically promises to pay policy benefits upon the occurrence of an event which may happen over a period of time ranging from one year (group term life policies, yearly renewable term assurance polices etc.,) to a very long time into the future. Typically a life insurance company receives premium either in a single lump sum or at regular intervals spread over the term of the policy.

The nature of life insurance business is unique in the sense that the premium received is not an income to the life insurance company as it has to set aside a certain amount to pay the policy benefits on the occurrence of the insured event, which could be death, maturity or surrender. The actuaries play a key role in helping the company assess these amounts which are typically known as policy liabilities (more popularly known as policy reserves).

The income statement and the balance sheet of a life insurance company are unique as the most important and significant item in these two statements is policyholder liabilities. If we look at the income statement, it only talks about the surplus or deficit and not profit or loss. Unlike the brick and mortar industries, the policyholder liabilities are the value of promises made to the policyholders payable in future. This key and influential number is estimated based on actuarial principles and long term assumptions on the mortality trends, economic factors and prevailing regulations

The types of policies which are issued by life companies are:

Unit Linked Policies: The premiums under these linked policies are credited into the investment funds chosen by the policyholder after deduction of premium related charges, if any. These investment funds are marked to market, thereby reflecting the current market values. Thus the investment risk lies with the policyholder as she/he chooses the funds according to her/his risk profile. The balance in the investment fund against each policy is known as that policy's Account Value. The charges to cover mortality, expenses etc., are deducted from the Account Value. The balance in the Account Value on the balance sheet date is set aside as the policy liability. If there are any investment guarantees, then these guarantees are evaluated to set aside certain amount as additional liability. Typically the principles followed in estimating these guarantees would be based on stochastic modeling of interest rate events.

Traditional Policies: These policies are non-linked with profit (par) and without profit (non-par) policies. The policy liabilities for these policies are estimated by the actuaries. We discuss in the following paragraphs, the relevant regulations and the key assumptions that govern the estimate of these liabilities. Reserve provisions also need to be set aside for any guarantees provided under the policy or any options available for policyholders under the policy.

Key Aspects of Relevant Regulations that govern the estimate of the Policy Liabilities:

The Insurance Act of 1938: This was the first comprehensive legislation governing all forms of insurance to provide strict state control over insurance business. Among other things, it specifies that insurance companies should prepare annual Accounts and Balance Sheet (Section 11) and conduct an annual valuation of the liabilities (Section 13). The Act also provides detailed guidelines on the conduct of insurance business, the investment and management of funds.

Surrender values: Section 113 of the Act specifies that Companies should provide guaranteed surrender values (GSV) if premiums under a policy have been received for at least three years. Convention is to provide the maximum of GSV and Special Surrender Value (SSV) in case of surrender of a policy.

Solvency Margin: Section 64VB of the Insurance Act 1938 and the IRDA (ALSM) Regulations mentioned below specify that Life Insurance Companies should hold minimum Required Solvency Margin (RSM) which is formula-based. The RSM varies depending on the type of policy and also depending upon the amount of reserves and sum at risk (i.e Sum Assured under the policy less reserves). The regulations further specify that the excess of assets over and above the RSM should be at least 50%.

IRDA (Assets, Liabilities and Solvency Margins of Insurers) Regulations (ALSM): In particular, the ALSM regulations set out broad guidelines on the method of determination of policy liabilities, mostly the death benefits and maturity payments expected, policy maintenance expenses and other contingencies. They also set out the principles to be followed in the setting up of assumptions (these are discussed below) for determining these liabilities while leaving the decisions on the level of prudence to be followed while setting these assumptions to the Appointed Actuary.

As stated above, the insurance policies are long term in nature ranging from one year to whole of life (ie upto 99 years depending upon when the policy is taken). Each policy is to be evaluated for setting up of its policy liability based on the kind of benefits promised upon the insured event.

The Key Parameters:

The key elements for which we need the values for assessing the liabilities are:

- **Interest rate**
- **Mortality**
- **Policy Lapses and**
- **Expenses**

Life companies conduct regular experience studies of mortality and lapse rate of the policies that are written in its books. These experience studies are typically done separately at product, distribution channel and at the overall portfolio levels. When setting the assumptions for mortality and lapses in future, these experience studies are used as the basis. If sufficient data is not available for any product either due to insufficient sales or if the product is launched recently, the pricing assumptions, the experience of industry or reinsurer may be relied upon.

Interest Rate: For each policy we project on a yearly basis till its maturity, the expected benefits payable, the expected expenses that will be incurred in maintaining the policy on the books (maintenance expenses) including any commissions payable. These benefits and expenses have to be discounted to the present day as we need to set aside an amount today to meet these expected pay outs. For discounting these benefits and maintenance expenses, we need to make a suitable assumption of the interest rate with appropriate provisions for adverse deviations.

Typically we look at the yield on 10 year G-Secs as the bench mark interest rate. We also look at what the current investment portfolio is earning. Based on the assessment of how the interest rates are expected to move, a suitable Provision for Adverse Deviation of interest rates (PAD) is made before deciding on the interest rate used for discounting (valuation interest rate). This PAD is helpful to meet any kind of unknown contingencies like a sudden shift in economic environment or asset liability mismatch etc.

Mortality: This assumption is required to project the death benefits payable and the maturity survivals. The standard mortality table prescribed for use is IALM 94-96 table. Mortality assumptions are set based on the nature of the product, the underwriting standards assumed at the time of pricing of the product and the actual mortality experience of the product after providing necessary PADs. The assumptions could be equivalent to IALM94-96 rates or a certain percentage of those rates. The actual mortality experience will be the cornerstone for setting the mortality assumption. If sufficient experience is not available, the appointed actuary will take into consideration the pricing assumptions, industry experience, if available besides using his/her own judgment before setting the assumption.

Policy Lapses: A Life Company experiences lapses of the policies sold each year. The Company carries out experience studies of the lapses on a periodic basis similar to those of mortality studies. Typically the lapses would be high in the first year and once the second renewal premium is paid, the lapse rates show a declining trend. Only in case of Unit Linked policies, policies experience higher rate of premium holidays after the mandatory lock-in period, as many policyholders will keep them in-force by authorizing the Company to deduct the necessary mortality charges from the account value available. In traditional policies no such provisions are available.

In traditional policies, in most cases, if the policyholder pays at least three annual premiums and subsequently wishes to withdraw the policy, he/she will be eligible to get the surrender value. If the policy lapses within the first three years, in most cases, no surrender value is payable. Generally, the Company, at the outset, declares the Guaranteed Surrender Values (GSV) payable on surrenders. However, the Company may pay higher than the GSV, based on its actual experience. These higher surrender values are known as Cash Surrender Values (CSV).

The assumptions for lapses are also set in a similar fashion to those of mortality at each year. If credible actual experience is not available for any product, the pricing assumptions and industry experience will be taken into account while setting these assumptions. In case of policies lapsed after three years, the benefit payable is higher of the GSV or CSV. For the new Companies, appropriate experience would not be available at later policy years (i.e. beyond 5 to 7 years given that most of the Companies are about 10 years old)

Expenses: The expenses of a life Company may be broadly divided into two categories viz. Acquisition Expenses and Maintenance Expenses. The acquisition expenses are incurred at the time of acquiring a new policy and Maintenance expenses are incurred for maintaining the policy on the books. Since the policy liabilities are set up after acquiring the policy, provision needs to be made for maintenance expenses only as the acquisition expenses are already incurred.

Life Companies conduct expense studies by allocating the actual expenses between maintenance and acquisition expenses. Based on the actual maintenance expenses and the Company's business plans for the next few years, the actuary typically sets the assumption for future maintenance expenses. A provision is also made for inflation of fixed per policy expenses.

The Actuary, when setting the assumptions for the above mentioned factors, would need to comply with various regulations, briefly discussed above, and the Actuarial Practice Standards issued by the Institute of Actuaries of India (IAI).

Mechanics of Setting the Policy Liabilities:

Typically a life company makes use of actuarial software to project future cash flows for estimating the policy liabilities. The actuaries set up liability projection models to project the liabilities for each policy till the policy maturity date.

After projecting the expected benefits, expenses and the future premiums based on the assumptions set for mortality, lapses and expenses, the present values of benefits, expenses and premiums are computed based on the interest rate assumed. The policy liabilities are computed as the sum of the present values of expected benefits and expenses less the present value of expected future premiums.

As the policy nears the maturity, the value of future premiums decreases as the outstanding premiums reduce. Since bulk of the benefits would be maturity benefits, the present value of benefits and outstanding maintenance expenses would typically be higher than the present value of the outstanding future premiums. Therefore the policy liabilities would be higher. These liabilities, thus set up, should equal the maturity benefit when the policy matures. When the maturity benefit is paid, the policy liability would be zero and the outstanding liability against that policy will also be zero. In other words, this process is similar to setting aside amounts from each premium payments and accumulating them with the expected investment returns to pay out the maturity benefit.

We may summarise the above discussion by taking a small example for ease of explanation:

A 10 year endowment policy with a maturity or death benefit of Rs.100,000 is issued. The premium payable is say Rs.9000 per annum.

Immediately after issuing the policy, the number of outstanding premiums would be nine as the policy is issued after receiving the first premium. We have already incurred the acquisition expenses. However the benefit is fully payable as on the valuation date. We will also incur maintenance expenses for 10 years.

The policy liability would be = Present Value (PV) of benefits payable + PV of maintenance expenses and renewal commissions, if any, – PV of nine annual premiums receivable on the due dates.

The policy liability would be low as bulk of the premiums receivable are outstanding.

Suppose we are assessing the Policy Liability after payment of the 8th premium.

In this case the Policy liability would be higher as the maturity benefit is yet to be paid, which is Rs.100,000 but the outstanding premiums are only two.

In this fashion the policy liabilities are built over the term of the policy which will be equal to the benefits payable on the due date of maturity.

Reasonableness of the Results:

The actuary will carry out validation checks on the policy data before running the actuarial programs for assessing the liabilities.

After the output is received, some more validation checks are made to assess the reasonableness of the results. The key checks would be movement in per policy liability, liability to premium ratios, the movement in benefit & expense components, comparison of number of policies input files with the number of policies in the output etc.

Once the actuary is satisfied with the numbers, these are provided to the finance department for effecting necessary entries in the financial statements

Tail Piece: We have made an attempt to give a brief overview of the principles, the regulations and the process that govern the setting up of the policy liabilities. Often actuaries use the word "expected" when they talk about policy liabilities, as the benefits payable, the maintenance expenses, the interest rate used on discount etc. are all based on assumptions, albeit arrived at based actual and expected experience.

We have not discussed the aspects that govern participating policies as it deserves a separate discussion given the various issues involved. ■

MSVS Phanesh, FIA, FIAI
Appointed Actuary
MetLife India Insurance Co Ltd.

The views expressed are personal and do not reflect those of the Employer.

V. SANKAR AIYAR MEMORIAL LECTURE

CPE Credit 2 HOURS

Southern India Regional Council of the Institute of Chartered Accountants of India

Cordially invites you to the

V. SANKAR AIYAR MEMORIAL LECTURE

by

Padma Bhushan Shri. Nandan Nilekani

Chairman, Unique Identification Authority of India
has kindly consented to deliver the Memorial lecture

Date :	Thursday the 31st January 2013
Time:	Will be announced later

Venue:	P. Brahmayya Memorial Hall, ICAI Bhawan, No.122, Mahatma Gandhi Road, Nungambakkam, Chennai - 600034

SHRI ASHOK KUMBHAT MEMORIAL LECTURE

Southern India Regional Council of The Institute of Chartered Accountants of India
Ashok Kumbhat Memorial Trust
and
D Rangaswamy Academy for Fiscal Research, Chennai

Cordially invite you to the

SHRI ASHOK KUMBHAT MEMORIAL LECTURE

by

Shri. Harish Salve

Senior Advocate, Supreme Court
has kindly consented to deliver the Memorial lecture

Shri. N.Rangachary

Former Chariman CBDT, Former Chariman IRDA presides

High Tea : 06.00 pm

Date :	Saturday the 26th January 2013
Time:	6:30 pm

Venue:	P. Brahmayya Memorial Hall, ICAI Bhawan, No.122, Mahatma Gandhi Road, Nungambakkam, Chennai - 600034

Updates on Direct Taxes

CA. V.K. Subramani
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1. ***Reassessment is not possible on those issues for which information or explanation was given at the time of assessment:***

In *Gujarat Power Corporation v. Asst. CIT (2012) 77 DTR (Guj) 89* the assessee at the time of assessment had furnished all the information with regard to claiming of exemption under section 10(23G) of the Act. Entire material was at the command of the Assessing Officer at the time of original assessment. The subsequent reopening of assessment was held as untenable since there was no omission in furnishing of information or explanation by the assessee and the Assessing Officer had applied his mind and formed an opinion with regard to the claim of exemption at the time of original assessment.

2. ***Unabsorbed depreciation of wind mill eligible for section 80-IA deduction, set off against income of other non-eligible business:***

In *CIT v. Swarnagiri Wire Insulations P Ltd (2012) 349 ITR 245 (Karn)* the assessee having income from wind mill claimed depreciation against such income and the balance of unabsorbed depreciation was set off against other business income. In the assessment, it was held that the unabsorbed depreciation of the business eligible for the benefits of section 80-IA could not be set off against other business income and such depreciation will have to be carried forward for set off against income from the same eligible business. The court held that section 80-IA(5) cannot override section 70(1) of the Act. Section 80-IA would become insignificant when there is no profit from the eligible business for claiming the deduction. Section 70(1) entitles the set off of loss from one source against income from another source under the same head of income. Thus the court gave the benefit of set off of unabsorbed depreciation of eligible business against the profits of other business(es).

3. ***Bad debt disallowed could in the alternative be claimed as business loss:***

In *Harshad J.Choksi v. CIT (2012) 349 ITR 250 (Bom)* the assessee claimed bad debts in respect of amounts not paid by three members of the Bombay Stock Exchange. The Assessing Officer held that the claim did not satisfy the conditions of section 36(2). Even the tribunal held that once a claim is made towards bad debt unless it satisfies the requirement of section 36(2), any relief under any other provision including the claim as business loss, could not be allowed. The court held that section 28 of the Act imposes a charge on the profits and gains of business or profession, which is to be understood in its ordinary commercial meaning. Only the net income is to be taxed after deducting expenses and losses incurred in carrying on of the business or profession. The court accordingly held that though the claim cannot be allowed as bad debt, it is eligible for deduction as business loss, if it is incidental to carrying on of a business. It also observed that the tribunal ought to have considered the assessee's claim for deduction as business loss.

4. ***Premium on keyman insurance policy and impact of assignment of policy:***

In *CIT v. Rajan Nanda (2012) 349 ITR 8 (Del)* the assessee an employee cum director in a company received keyman insurance policy assigned in his favour. The company had claimed the premium on such policy as business expenditure which the court held as allowable expenditure by citing Circular No.762 dated 18.02.1998. It held that the assignment of policy in favour of keyman subsequently will not disentitle the deduction claimed previously. With regard to tax consequence in the hands of employee to whom the policy was assigned, the court held that section 17(3)(ii) will apply only in respect of 'any sum received in a keyman insurance policy' and therefore as no amount was received at the time of assignment, it is not taxable in the hands of the director. When the keyman insurance policy is assigned, the insurance company has clarified that it will get converted into an ordinary policy hence the amount received on maturity will also be tax-free.

5. ***Inclusion of spouse name in reinvestment does not disqualify exemption under sections 54 and 54EC:***

In *DIT (International Taxation) v. Mrs.Jennifer Bhide (2012) 349 ITR 80 (Karn)* the assessee a non-resident individual derived long-term capital gain from sale of house property. She acquired another residential house property and subscribed to capital gain bonds of REC with the joint name of spouse. The Assessing Officer disallowed the claim of exemption to the extent of 50 percent attributing it to the share of her spouse. The court held that though the property and bonds were acquired jointly, no amount was contributed by her spouse for the acquisition. As the entire consideration has flown from the assessee, merely because in the sale deed or in the bond, her spouse name was mentioned, the claim of exemption cannot be restricted. Thus the decision was in favour of the assessee.

6. ***In advertent error in belated e-return is also eligible for rectification:***

In *Sanchit Software & Solutions (P) Ltd v. CIT (2012) 349 ITR 404 (Bom)* the assessee filed a belated e-return and committed mistake by including dividend income and long-term capital gain, which were not chargeable to tax. The return was processed under section 143(1) without eligible exemptions. Later, the assessee filed a revised return rectifying the error which was not responded as the original e-return was a belated return. Petition under section 154 and revision under section 264 were sought. The revision petition was of no avail to the assessee. The court cited the CBDT circular dated 11.04.1955 and set aside the order of revision passed under section 264. It directed the Assessing Officer to treat the rectification petition filed as filed on the date of receipt of the court order and dispose of the rectification application within six weeks. The writ petition helped the taxpayer with necessary relief.

7. ***Agricultural land within 8 kms of municipal limit is not liable to tax unless it is covered by notification:***

In *CIT v. Madhukumar.N (HUF) (2012) 78 DTR (Kar) 391* the assessee sold agricultural land which resulted in long-term capital gain of Rs.48.95 lakhs which was claimed as fully tax-free. The court held an agricultural land is not a capital asset but becomes a capital asset only when it is located within the limits of municipality or within such distance from the municipal limits as notified by the Central Government. When the distance from the municipal limit is not notified, it is not a capital asset and hence the capital gain is not chargeable to tax. ■

THE MONTH THAT WAS (DECEMBER 2012)

Date	Programme
1st	Seminar on Cost and Financial Management
14th	Investor Awareness Programme
14th & 15th	Two Day IT Security Summit – 2012
18th	Seminar on Corporate Laws
21st	S Vaidyanath Aiyar Memorial Lecture
21st & 22nd	Two Day Seminar on Taxation
22nd	Hands on Practical Workshop on Advanced Excel for CA's
22nd	D Rangaswamy Memorial Lecture
28th	Centenary Celebrations of Late CA. K. Sadagopachari
29th	Seminar on International Taxation
31st	Half-a-day CPE Seminar
12th, 19th & 26th	Study Circle Meetings

SIRC acknowledges the contribution and support extended by Central Council Members of ICAI, Regional Council Members of SIRC, Resource Persons and the delegates/participants for making all the programmes a resounding success.

Invitation for Contribution of Articles

SIRC of ICAI invites Articles from Members for publication in the SIRC Newsletter. SIRC is releasing Theme Based monthly Newsletter. The theme finalized for the February 2013 issue as follows:

Month	Theme	Articles to reach SIRC on or before
February 2013	Business Management & Corporate Governance	**January 10, 2013**

Members may send the soft copy of their article, profile and passport size colour photograph to SIRC by email to sirc@icai.in and sircnewsltr@icai.in for consideration by the Editorial Board on or before the above said dates.

DISCLAIMER

The SIRC/ICAI does not accept any responsibility for the views expressed in different contributions/ advertisements published in this Newsletter.

WORK DISPOSAL POSITION

The position of disposal of various matters relating to Members and Students of Regional Office, Chennai as on 25.12.2012 is as under:

Particulars	Disposal of records received upto
Members	
Enrolment of Members	10/12/2012
Fellow Admission	14/12/2012
Grant of COP	18/12/2012
Restoration of Name – Recommended upto	17/12/2012
Restoration of Name – Cleared upto	17/12/2012
Constitution of Firms	13/12/2012
Reconstitution of Firms	13/13/2012
Paid Assistant	06/12/2012
Change of Address – Members	17/12/2012
Change of Address – Firms	13/12/2012
Students	
Registration of Articles	30/09/2012
Re-registration of Articles	05/11/2012
Industrial Training	05/11/2012
Termination of Articles	05/11/2012
Completion of Articles	15/12/2012
Permission to pursue Other Courses	07/12/2012
Change of Address – Students	13/12/2012
Despatch of Materials – CPT	30/11/2012
Despatch of Materials – IPCC	30/11/2012
Despatch of Materials – ATC	30/11/2012
Despatch of Materials – Final	03/11/2012
Despatch of Materials - ITT	31/10/2012

SEMINAR ON COMPANIES BILL - 2012

P. Brahmayya Memorial Hall
'ICAI Bhawan'
No.122, Mahatma Gandhi Road,
Nungambakkam, Chennai - 600034

CPE Credit 6 HOURS

Wednesday, January 30, 2013

Timings: 10:00 AM to 5:00 PM

Technical Sessions	Resource Persons
Overview and the important changes in the new Companies Bill 2012	**Shri. B. Ravi** Chennai
Accounts and Audit inspection and NFRA	**CA. N. Nityananda,** Bangalore **& CA S. Ramakrishnan,** Chennai
Disclosure requirement and rule making under new Companies Bill 2012	**CA. P.S. Kumar** Chennai
Compliance and Enforcement mechanism	**CA. L. Venkatesan** Chennai

DELEGATE FEE: ` 750/-

Delegate fee by way of Cash or by Cheque / DD drawn in favour of **'SIRC of ICAI'** payable at Chennai shall be sent to SIRC of ICAI, ICAI Bhawan, No.122, Mahatma Gandhi Road, Nungambakkam, Chennai – 600034. Phone: 044-30210320; Fax: 044-30210355 ; Email: sirc@icai.in

Updates on Indirect Taxes

CA. J. MURALI
Chennai
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1. *New Dimensions of Right to use*

[2012] 56 VST 369 (Karn)

INDUS TOWERS LTD

Vs

DEPUTY COMMISSIONER OF COMMERCIAL TAXES, ENFORCEMENT 1, BANGALORE AND OTHERS

Value Added Tax – Sale – Extended Definition – Transfer of Right to use goods – General Principles – Ingredients – Provision of Access to passive infrastructure facility to mobile telecom operators for housing and operation of their active infrastructure – Not a transfer of right to use but mere licence to access – No Delivery of Possession of Goods of Right to use Goods – No Deemed Sale – Karnataka Value Added Tax Act, 2003 (32 of 2004), s. 2(29)(d) – Constitution of India, Art.366(29A)(d).

2. *Harpic & Lizol are Pesticide*

[2012] 56 VST 452 (Gauhati)

[In The Gauhati High Court]

RECKITT BENCKISER INDIA PVT. LTD.

Vs

STATE OF ASSAM AND OTHERS

Value Added Tax – Entries in Schedule – “Harpic”, “Lizol” and “Dettol” – “Dettol” falls under category of drug and medicine - Not a toilet article excluded under explanation to entry – Primary Quality of “Harpic”, “Lizol” of disinfectant – Fall under entry dealing with pesticides – Assam Value Added Tax Act, 2003 (8 of 2005), Sch. I, Entry 1; Sch. II, Part A, Entry 19; Sch. IV, Entry 21.

3. *Cartridges and Tonner Parts are Parts and Accessories of Computer*

[2012] 56 VST 472 (Gauhati)

[In The Gauhati High Court]

HEWLETT PACKARD INDIA SALES PVT. LTD.

Vs

STATE OF ASSAM AND OTHERS

Value Added Tax – Entries in Schedule – Inkjet cartridges and tonor cartridges – Integral parts of printers – Fall under “Parts and Accessories of Computer system and peripherals” – Assam Value Added Tax Act, 2003 (8 of 2005), Sch. II, Part B, Entries 3, 4; Sch. V

4. *Refund of Service Tax with interest*

[2012] 56 VST 141 (Guj)

[In The Gujarat High Court]

C. C. PATEL AND ASSOCIATES P. LTD. Vs

UNION OF INDIA AND OTHERS

Service Tax – Refund – Limitation – Unjust Enrichment – Assessee paying tax on billing basis without collection but within time – Limit provided for depositing tax on actual collection basis – Assessing Authority raising demand with interest on technical ground of non-payment for later period prescribed for deposit of tax not collected from recipient without adjusting tax already paid – Assessee once again paying amount as demanded but claiming refund of excess payment – Rejection of refund claims – Not justified – Retention of amount without Authority of Law – Not a refund of duty found excess on completion of assessment – No question of limitation or unjust enrichment - Direction to refund amount excess paid with statutory interest – Finance Act (32 of 1994), s. 68(2), (3) – Central Excise Act (1 of 1944), s. 11B.

5. *Cause of Action Vital*

[2012] 56 VST 171 (Guj)

[In The Gujarat High Court]

VENUS JEWEL

Vs

COMMISSIONER OF SERVICE TAX – I, MUMBAI AND ANOTHER

High Court – Jurisdiction – Territorial Jurisdiction – Service Tax – Services received from outside India for consideration in foreign currency by Assessee engaged in manufacture and sale of cut and polished diamonds after importing rough diamonds – Writ petition filed in Gujarat High Court against show-cause notice for recovery of tax and interest and imposing penalty – Registered Office of Assessee at Mumbai, and show-cause notice received at Mumbai Office – Queries answered before Commissioner of Service Tax at Mumbai and levy challenged in Bombay High Court – No part of cause of action arose within Territorial Jurisdiction of Gujarat High Court – That Diamonds received at Surat by itself will not confer jurisdiction on Gujarat High Court – Petition not maintainable – “Cause of Action” meaning of – Constitution of India, Art. 226(2).

6. *Revenue Neutral*

[2012] 55 VST 130 (CESTAT – Bang)

[Before the Customs, Excise and Service Tax Appellate Tribunal – Bangalore]

POPULAR VEHICLES AND SERVICES LTD.

Vs

COMMISSIONER OF CENTRAL EXCISE, KOCHI

Service Tax – Charge of tax – Sharing of commission received by company and paid to dealers – Company discharging Service Tax due on commission received under relevant entry – No liability survives under business auxiliary service on any work carried out by Intermediary – Dealer not liable to Service Tax – Finance Act (32 of 1994), s. 65(105) (zzb).

7. *Condonation of Delay - Vital*

[2012] 55 VST 349 (Karn)

[In The Karnataka High Court]

CANARA COMMUNICATION INDIA P. LTD.

Vs

COMMISSIONER OF CENTRAL EXCISE

Service Tax – Appeal to Appellate Tribunal – Appealable Orders – Condonation of delay – Dismissal of application for condonation of delay in filing Appeal for non-prosecution – Dismissal of Appeal as consequence thereof – No dismissal of Appeal for non-prosecution – No Appeal lies to High Court against such order – Central Excise Act, 1944, ss. 35C, 35G.

8. *Various Dimensions of Penalty*

[2012] 54 VST 202 (Karn)

[In The Karnataka High Court]

COMMISSIONER OF SERVICE

TAX, SERVICE TAX COMMISSIONERATE, BANGALORE

Vs

MOTOR WORLD

(and other cases)

Service Tax – Penalty – Not automatic – Conditions precedent – Ingredients of sections 76, 77 and 78 should exist and there should be absence of reasonable cause for failure – Penalty not imposable under section 76 and 78 – Discretion regarding quantity of penalty between minimum and maximum prescribed – Minimum penalty of Rs. 100 not to be read as Rs. 100 per day – Revision – No revision to enhance penalty permissible where penalty not less than minimum prescribed – Revision not permissible to impose penalty for the first time – Finance Act (32 of 1994), ss. 76, 77, 78, 80, 84.

9. *Reduction in rate of tax from 14.5% to 5%*

Tamilnadu Government reduced the rate of tax from 14.5% to 5% for Sanitary towels, Sanitary napkins, belt less napkins, baby nappies and disposable diapers from 01.04.2012 vide G.O.MS.No. 48 dated 27.03.2012.

10. *Reduction in rate of tax for generator under TNVAT; G.O.MS.No. 154 dated 08.12.2012 - TNVAT*

The Rate of Tax on Generator Set or Gen. Set is reduced from 14.5% to 5% with effect from 07.12.2012.

11. *Sec. 12 Purchase tax exemption - TNVAT Act 2006.*

The Hoteliers need not pay Sec.12 Purchase tax for the Dhall, Chillies, etc. (Item 18, 67, 68 of Fourth Schedule of TNVAT Act 2006) purchased from the sellers who is exempted upto a turnover of Rs.300 Crores. The Exemption was granted from 01.04.2012. ■

Extension of CPE hours

The last date for complying with the CPE hours requirement for the calendar year 2012 has been extended by one month, i.e., up to 31st January, 2013.

- Secretary
CPE Committee, ICAI

Examination Notification, May 2013

In pursuance of Regulation 22 of the Chartered Accountants Regulations, 1988, the Council of the Institute of Chartered Accountants of India is pleased to notify that the Intermediate (Integrated Professional Competence), Final examination and Insurance and Risk Management (IRM) examination vide Notification No. 13-CA (EXAM)/M/2013 dated 19th December, 2012. The Notification has been hosted in the ICAI Website (http://icaiexam.icai.org) under Students and Sub link Examination. It can be viewed directly under the link http://220.227.161.86/28652exam18288.pdf

HANDS ON "PRACTICAL WORKSHOP" ON XBRL - FINANCIAL STATEMENTS FILING IN XBRL FORMAT BASED ON NEW TAXONOMY ON MCA PORTAL

ITT Lab, Third Floor, Annex Building, ICAI Bhawan
No.122, Mahatma Gandhi Road, Nungambakkam, Chennai - 600034

CPE Credit 6 HOURS

Organised by IT Committee of SIRC of ICAI

Saturday 19th January 2013

Timings: 10:00 AM to 6:00 PM

Resource Person: **CA. P. Selvamoorthy**, Chennai

Course Methodology			
Review of Soft copy of Financial Statements & Annual report and refining the same	Tagging	Specifications to be followed for creation of instance document	Create instance document for Balance sheet and Profit and Loss Account
MCA XBRL validation tool Download from MCA portal	Load & Use the Instance Document in the validation tool.	Pre-scrutiny of the validated instance document through the tool	Verification post pre-scrutiny of the document
Instance document to the Form 23AC-XBRL and Form 23ACA-XBRL	Form 23AC-XBRL and Form 23ACA-XBRL Submission on the MCA portal.	Viewing of balance sheet and profit and loss submitted in XBRL form on MCA portal.	

DELEGATE FEE: ` 1200/-

Seats limited to 35 only on first-come-first-serve basis. Kindly send email to sirc@icai.in for early registrations. Since seats are limited, SPOT registrations are NOT encouraged.

Delegate fee by way of Cash or by Cheque / DD drawn in favour of **'SIRC of ICAI'** payable at Chennai shall be sent to SIRC of ICAI, ICAI Bhawan, No.122, Mahatma Gandhi Road, Nungambakkam, Chennai – 600034. Phone: 044-30210320; Fax: 044-30210355 ; Email: sirc@icai.in

INVESTOR AWARENESS PROGRAMMES (2012-13)

EMPOWERMENT OF INVESTORS

organized by
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

under the aegis of
INVESTOR EDUCATION AND PROTECTION FUND (IEPF) OF MCA of GOVERNMENT OF INDIA

DATE: 25/1/2013 **DAY: FRIDAY** **TIME: 4:00 p.m. to 7:30 p.m.**

Sessions	Topics (indicative)	Resource Persons
Session I	Indian Stock Market – Present and Future	**Shri. Regi Thomas,** Chennai
Session II	Development of Derivative Market in India	**Shr. S. Nagappan,** Chennai
Session III	Investment Opportunities for Small Investors	**Shri. Vivek Karwa,** Chennai

CA. S Balakrishnan
Bangalore
balamng@gmail.com

Financial Management

Art of managing one's finances is very important, if one has to lead peaceful life. Even finance professionals assume that financial management is something which concern business establishments only. This is not true. Every person passes through 3 phases in his life—

Dependent	Independent	Dependent/Independent?

During early part of one's life, we are dependent on our parents/guardians for financial support, Once we are employed, we are independent. How we lead our life during this stage of earning will determine as to whether we are dependent or independent post retirement. A person who earns Rs.1 L per month and spends more than the earnings, say Rs.1.2 L per month is neither a rich person; nor a person who earns Rs.2000 per month but spends only Rs.1700 per month is a poor person. Another important aspect is the art of saving. All of us are greedy and this greed makes us to part with our savings very easily. Ponzi schemes and others will not be successful if people have financial literacy. High returns mean high risk. When one is looking for astronomical returns, such persons should be prepared for total loss, since such investment is nothing but gambling.

<25 years of age	25-60	>60
Dependent	Independent	Dependent/Independent?

There is some truth in the saying that it is easier to earn money than channelizing one's savings properly. Equitable growth and prosperity to all can be achieved only if India can ensure that every willing person in the age of 20 to 60 is working. Further there is need to ensure that minimum earnings per person in rural area is Rs.45000 per annum and in urban areas earnings per person is Rs.65000 per annum. Government's welfare schemes should focus on persons with income below Rs.1 L per annum. This should be the immediate objective so that the benefits of growth is enjoyed by everybody. For equitable growth, India need to focus on earnings (every adult willing to work to be employed) and exports. While earnings will spur consumption growth, exports will bring stability in currency market. Further every one should be concerned with savings and investment; this is because in a country with 1.2 bil population, persons with provident fund membership is only about 5 Cr—i.e about 4% of our population has a measure of social security!

Coming back to the aspect of savings, prospect of easy money lures everyone. Ponzi schemes which offer astronomical returns thrive because greedy people are willing to back it up. These schemes are like gambling—there is no way to guarantee such high returns. Legislation/supervision should ensure that such people should very clearly inform the investment avenues so that people can judge beforehand the extent of risk involved. Legal remedy subsequently will be ineffective since there will not be any assets to take care of the claims.

Income earners, during their earning period should look the possibility of saving a portion of their earnings. Sum saved and invested should be 15-25% of the annual earnings. Such amount invested for a long period, say 30-40 years, will create sufficient corpus for the person to live peacefully after retirement.

Government has got a duty to provide enough incentives for persons to save a portion of their earnings. Further proper market control mechanisms should be created to ensure accountability of persons who sourced such investments. Between equity and debt investments, higher returns are possible on equity investments. However it is important to understand the relationship between risk and reward. If one traces stock market history, one will realize that blue chips of yester years are no longer in the list. Even if one views Fortune 500 listing, just a handful of companies managed to stay in the list over the over 50 years. Hence only a portion of one's portfolio should consist of equity investments.

Most people consider debt to be a secured portfolio. There is an element of risk even in debt portfolio. In case of liquidation of business establishments, even debt instruments may bear some portion of loss and consequently bear some risk.

Persons working in organizations which come under Employees Provident Fund Scheme will have PF accumulations—employees own contribution plus employer's contribution. A portion of the contribution goes towards Employees Pension Scheme. Some 20 years back, most of the employees used to work for one organization—unless the organization is closed due to various reasons. Now a days, most of the employees change jobs frequently and normally 5 years of service in one organization is considered as maximum. Only about 10-15% of working population is covered under Provident Fund Scheme. Even such people, when they change job, there is no unique employee identification number to track one's account. Aadhaar number or Permanent Account Number should form basis of unique identification number of the individual. Saving during one's earning life cycle is meaningless unless the amount is made available immediately on retirement.

Let us consider that a person in rural area has an income of Rs.50000 per annum and in urban area has an income of Rs.100000 per annum and his saving is 10% of the annual income--

Investment of Rs.1000 will have maturity value of—

Interest rate	8%	9%	10%	12%
After 30 years-Rs.	10062	13267	17449	29959
After 35 years-Rs.	14785	20413	28102	52799

Investment of Rs.1000 per annum will have maturity value of—

Interest rate	8%	9%	10%	12%
After 30 years-Rs.	123345	149575	181943	271292
After 35 years-Rs.	186102	235124	298126	483463

Person in rural area with saving of Rs.5000 per annum will have close to Rs.15 L, if the savings were invested at interest rate of 10% and person in urban area with saving of Rs.10000 per annum will have close to Rs.30 L after 35 years. Ideally saving for every person should be atleast 15-20% of annual income during the earning period.

Due to growth in urban population, several cities are over crowded and the utility service providers are not able to cope up with the demand. For planned development of cities, we need to look at the option of relocation to smaller towns post retirement. This move will lead to greater development of smaller towns also. The retirees can be drafted to educational institutions there on part time basis. If we can achieve this, we will see a different India after 25-30 years.

A large potion of India's population is still very poor—about 40% of our population live with earnings below Rs.50 per day. While we need growth to generate employment, we also need equitable growth. With employment and consequent income, most of the people below the poverty line will see a change in their lifestyle. Till such time the equitable growth is a feature of our economy, there is need to provide subsidies to the poor so that they support India's vision of education, employment and export. Further it should also be ensured that the subsidies are enjoyed only by the intended beneficiaries. Just look at the case of subsidized food grains through fair price shops. If someone as part of social audit look into the number of poor families, number of ration cards issued to people below the poverty line and the provisions drawn by such poor families at subsidized rate, they can find the extent of misappropriation. If rice/wheat which cost in the open market Rs.20/Kg is sold in ration shops for Rs.5/Kg for the poorer sections of the population, one is not sure whether the quantum of provisions drawn by ration shops for distribution to the poor are really purchased by them and consumed by them. However if the issues are fictitious, then the quantum of such fictitious issue can be diverted to black market and the differential can be misappropriated by such distributor. One of the ways of eliminating black money will be bye ensuring that most of the transactions are through banking channels. It is said that we have a very good mobile phone penetration in India—about 70% of our population is said to have mobile connections; however number of people with bank accounts will be less than the number of people with mobile connection. With ATM and other facilities, it is not necessary that every village should have a bank branch; most of the people can be covered by extension counters, ATMs, etc. Further for a country of our size, we should have 2 or 3 banks which are globally large. However even our largest bank SBI is nowhere near the global leader. We should see 8 or 9 large banks (both nationalized and private banks) and a large number of local area banks. Further when GST is introduced in proper sense, goods/services will have to be taxed at the point of consumption and settlement through banking channels will make it easier to track the transactions.

Accumulated savings need to be invested properly and they can easily be channelized for nation building activities; Insurance/pension authorities need to come up with long term saving products. Further such insurance/pension funds should invest in long term bonds which are used for building roads, airports, ports, etc. To encourage savings, government should extend concession for investment based on income levels—for income upto Rs.10 Lakh per annum, deduction should be 50% of investment to such funds and income above Rs.10 Lakh per annum should have deduction restricted to Rs.1 Lakh.

Should savings be channelized to equity investment? It is not simple to answer. Some companies which came with equity issue at hefty premium, are now languishing in stock market. May be SEBI should permit such issues only where the amount is retained in the company. We have also seen debt restructuring by banks where loan has been written off by banks. We have not learned from the episode of Bombay(Mumbai) textile mills case. Mill workers lost their job, banks lost their money (which incidentally is depositors' money); however promoters were left with real estate which is now being sold at huge profit. Should not this money be shared by workers/banks? Corporates need to realize that the assets owned by them are financed by both equity and loan component.

Channelizing the savings properly to fuel growth/employment is the primary responsibility of policy makers. Tax concession for savings should benefit middle income groups since propensity to save is more for rich people and small/medium income groups need tax incentives for savings. Further corporate/banks should realize that the assets owned by such corporate are financed by both equity investors and lenders.

With the above, one can visualize India of 2040 and with focus on education, employment and exports, India will be a different country with good GDP and better living conditions for all. ■

REPUBLIC DAY CELEBRATIONS

Saturday, the 26th January 2013

National Flag Hoisting (8.30 a.m.)
ICAI Bhawan, Chennai
By
CA. K. Viswanath, Chairman, SIRC of ICAI
ALL ARE WELCOME

Special Session for Students of
CPT, PCC/IPCC and Final at 7.15 a.m.
on "**CA Exams - How to Face the Challenges & Beyond the Examinations**"
by
CA. Vijay Gopalan A K, Chennai
at P. Brahmayya Memorial Hall, ICAI Bhawan, Chennai

SOUTHERN INDIA REGIONAL COUNCIL OF
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
'ICAI Bhawan', No.122, Mahatma Gandhi Road, Nungambakkam, Chennai – 600034

61st ANNUAL GENERAL MEETING OF SIRC OF ICAI

NOTICE

NOTICE is hereby given that the **Sixty First Annual General Meeting** of the Members of the Southern India Regional Council of the Institute of Chartered Accountants of India will be held on **Tuesday, the 22nd January 2013 at 5.30 p.m.** at the P. Brahmayya Memorial Hall at 'ICAI Bhawan', No. 122, Mahatma Gandhi Road, Nungambakkam, Chennai – 600034 to transact the following agenda:

1. To receive the Annual Report of the Regional Council for the year ended 31st March 2012
2. To receive the Audited Financial Statements of the Regional Council for the year ended 31st March 2012 together with the Auditor's Report thereon; and
3. To transact any other business that may be brought before the meeting including any resolution(s) received and/or any resolutions that may be received from the member(s) subject to the fulfillment of conditions under Regulations 150 & 151 of the CA Regulations, 1988 with the permission of the Chair.

BY ORDER OF THE
SOUTHERN INDIA REGIONAL COUNCIL OF ICAI

Place : Chennai
Date : 31.12.2012

CA. P.V. RAJARAJESWARAN
SECRETARY

Note:

1. The aforesaid documents are being sent by email, and have been hosted on the website of the Southern India Regional Council of the Institute of Chartered Accountants of India (www.sircoficai.org) and have also been displayed on the Notice Board at the office of the Southern India Regional Council of the Institute of Chartered Accountants of India. Members who have not received those documents may provide their email ids to sirc@icai.in to enable us to send the notice to such members by email.
2. Members desirous of having hardcopy of the aforesaid documents may write with their ICAI Membership Number to Dr. T Paramasivan, Senior Deputy Director, the Institute of Chartered Accountants of India, 'ICAI Bhawan', Post Box No.3314, No.122, Mahatma Gandhi Road, Nungambakkam, Chennai – 600034 (email: sirc@icai.in)
3. Resolutions received from the member(s) under Regulations 150 & 151 of CA Regulations, 1988 which relate to matters pertaining to the duties and/or falling under the jurisdiction of the Regional Council and/or Regional Office form part of the aforesaid documents. Other Resolutions have been forwarded to the Head Office of the Institute.

SOUTHERN INDIA REGIONAL COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Two months Coaching Classes for Common Proficiency Test (CPT) for students appearing for June, 2013 CPT Examination will commence on Friday, 18th January, 2013.

COURSE FEE : RS.3,000/- Last Date for enrolment: 10th January, 2013

(2 months intensive coaching, revisions in each subject and one model examination)

Timings	Morning Batch	Evening Batch
Monday to Friday	6.30 a.m. to 12.00 noon	2.00 p.m. to 8.00 p.m.
On Saturdays & Sundays	Between 7.00 a.m and 5.00 p.m.	

Highlights

- ✓ Renowned Faculty
- ✓ Affordable Fees
- ✓ Backing of ICAI
- ✓ Special attention for weak students
- ✓ Mock Tests
- ✓ Doubt clearing sessions

Three Months Integrated Professional Competence Course (IPCC) for students appearing for November 2013 IPCE Examinations will commence on Wednesday, 13th February 2013.

COURSE FEE : One Group - RS.2,000/-; Both Groups - RS.4,000/-

Last Date for enrolment: 6th February, 2013 — Seats on first cum first serve basis

Timings	Group I	Group II
Monday to Saturday	6.30 a.m. to 9.30 a.m.	5.30 p.m. to 8.30 p.m.
On Sundays - **Both Groups:**	Between 7.00 a.m and 5.00 p.m.	

Highlights

- ✓ Renowned Faculty
- ✓ Classes are conducted since 1965
- ✓ Affordable Fees
- ✓ Backing of ICAI
- ✓ Special attention for weak students
- ✓ World class Library support
- ✓ Reading Room Facility
- ✓ Mock Tests
- ✓ Doubt clearing sessions

The coaching class fee should be remitted through Syndicate Bank, Nungambakkam branch, Chennai-34. The application form and bank challan can be had from SIRC office. The outstation students may remit the fee by way of demand draft drawn in favour of "SIRC of ICAI" payable at Chennai. The demand draft along with the details of name, address, contact nos. and student Regn. No. should be sent to SIRC of ICAI, "ICAI Bhawan", 122 Mahatma Gandhi Road, Chennai 600034.

For further details contact SIRC Office. Phone No.044-30210322 Email : sircclasses@icai.in.

NEW ARRIVALS IN SIRC LIBRARY (INDICATIVE)

Title	Author
Taxation	
All India VAT law digest 2003- 2012	Agarwal M P
Central excise : A comprehensive commentary on law relating to central excise	Datey V S
Central Sales tax Laws Vol.1 2012	Chaturvedi K
Central sales tax laws Vol.2 2012	Chaturvedi K
LAW	
Company Law Manual 1927- 2012 Vol.2 Sec 425- 658	
Company Law Manual 1927- 2012/ Volume 1 Sec 1 to 424L	
Contract Law and Economics	
Conveyancing- Desouza's forms and precedents (with CD)	Datta C R
Evidence	Choo A L-T
Guide to Private limited company – Law practice and procedure	Jain D K
Information Technology	
Computer networking- a top-down approach featuring the internet	Kurose J F
Computer – windows 7 with MS office 2010	Jain S
Computers, Internet and New Technology Laws	Seth K
Fundamentals of computer and programming	Agarwal L P
IT Security	
Learning to rank for information retrieval	Yan Liu T
Let us JAVA	Kanetkar Y
Accountancy	
Accounting and Finance- contemporary issues	
Indian accounting standards (Ind AS) IFRS converged Ind AS: Practical implementation and application guide	Saraf M
Indian Accounting Standards (IND Ass) and IFRSs ready reckoner	Saini A L
International financial reporting standards (IFRS) and Indian Accounting practices	Raiyani J R
Accounting and Finance- contemporary issues	
Management	
Business taxation and financial decisions	Schanz D
Innovation xceloft- strategies, concepts and tools for growth and profit	Maital S
Oxford handbook of quantitative asset management	
Economics	
Rural banking operations	
International Economics- global markets and competition	Thompson H
Introductory Economics	Hoag A J
Financial system and financial institutions in India	Kunjukunju B
Strategic and Financial Management	
Due diligence handbook- corporate governance, risk management and business planning	Spedding L S
Executing strategy from boardroom to frontline	Daughtry T C
Financial management (with CD)	Pandey I M
Financial ratios and financial statement analysis	Raiyani J R
Cost Accounting	
Cost accounting – Theory and Practice	Palaniappan R
Guide to cost audit	Jain D K
Investment	
Master guide to mergers and acquisitions in India: Tax and regulatory	
Mergers, amalgamations, takeovers, joint ventures, LLPs and corporate restructure (covering takeover code 2011) 2012 with CD	Samoath K R
Auditing	
Novel and conventional methods of audit, investigation and fraud detection	Dalal C
General Books- Personality Development	
Campaign IT- Achieving success through communication	Barnard A
Getting ahead- three steps to take your career to the next level	Garfinkle J A
Good idea- how to move ideas now what	Lee C T
The great secret: Talks on the songs of kabir	Osho
Guide to financial management	Tennent J
Health wealth and happiness- you can control your destiny	Singh D
Instant appeal- the 8 primal factors that create blockbuster success	Kunkel V

For full list of new arrives please visit **http://www.sircoficai.org/latest-books.php**

ANNOUNCEMENT

[No.13-CA(Exams)/WdngPlcy/2012 - November 16, 2012]

In terms of the provisions of Regulation 39 (4) of the Chartered Accountants Regulations, 1988, the candidates of an examination conducted by the Institute have the facility to apply for verification of their answer books as to whether their answers in any particular paper or papers have been examined and marked. Similarly, they also have the facility to apply for inspection and/or have a certified copy of their answer books in terms of the related procedure as approved by the Council of the Institute.

The answer books involving applications received seeking verification, inspection and/or certified copy, as also the applications received under the Right to Information Act, 2005, in relation to a given examination are retained for a maximum period of one year from the date of declaration of results of relevant examination. As regards answer books involving matters which are subjudice [(i.e. involving litigation (either within the Institute or outside the Institute such as Hon'ble Courts of judicature, Central Information Commission or other similar forums)], the same are retained till the conclusion of the litigation proceedings in such fora.

All other answer books in relation to a given examination are retained for a period of four months (120) days from the date of declaration of result of the relevant examination.

The above is for the information of all concerned.

EMPANELMENT OF FIRMS OF CHARTERED ACCOUNTANTS FOR THE YEAR 2013-14

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA
10, BAHADUR SHAH ZAFAR MARG, NEW DELHI-110124.

Applications are invited online from the firms of Chartered Accountants who intend to be empanelled with this office for appointment as auditors of Government Companies/Corporations for the year 2013-2014. The format of application will be available on our website: www.cag.gov.in from 1st January 2013 to 15th February 2013. Chartered Accountant firms can apply/update the data showing the status of their firm as on 1st January 2013 and generate online acknowledgement letter for the year. They are also required to submit related documents (to be notified in this office website) to this office by 31st March 2013. Only the Chartered Accountant firms who have generated online acknowledgment letter for the year 2013-2014 and submitted the documents before the due date will be considered for empanelment.

Sd/-
Director General (Commercial)

CHAIN SEMINAR ON MANAGING FAMILY BUSINESSES

An Endeavour of SIRC for the Development of Family Owned Business Enterprises in India

CPE Credit 6 HOURS

Dates of The Seminar	8th February 2013	9th February 2013	14th February 2013	16th February 2013
Venue of the Seminar	Bangalore	Chennai	Coimbatore	Hyderabad

Session Details	
Technical Session - 1	Family Business in India – Evolution; Ethos; Strengths, Challenges, Casual Analysis, Status Asessment
Technical Session - 2	Cultures, People, Processes in Family Businesses – Status Quo vs Transformation to the Next Step
Technical Session - 3	Strategies – Growth Drivers for taking Family Business Forward
Technical Session - 4	Taxation and Structuring of Family Businesses – Issues and Options
Concluding Session & Wrap up	Family Businesses In India – Way Forward & Role of CAs

* For complete details of the programme visit SIRC Website: www.sircoficai.org

MEMBERS & STUDENTS HELPLINE

Approach the right Department/Officials for the right purpose to enable us to serve you effectively and efficiently.

SOUTHERN REGIONAL OFFICE

For all matters pertaining to CPT Registration, IPCC Registration, Article Registration, Article Termination, Article Completion, Final Registration, members Registration Members Removal and Restoration, Certificate of Practice Registration/ Cancellation, Members Change of Address, Firm Registration, Reconstitution of Firm, ITT Training, IPCC Orientation Programme.

CONTACT DETAILS

Sl. No.	Department	Purpose	Phone	Email
1.	Board of Studies	CPT Registration, IPCC Registration	044 - 30210310 044 - 30210311 044 - 30210312	srobos@icai.in
2.	Articled Clerks	Article Registration, Re-Registration, Termination, Completion, Additional Course	044 - 30210315 044 - 30210316 044 - 30210317	sroart@icai.in
3.	Members/Firms	Registration, Removal, Restoration, Certificate of Practice Registration/ Cancellation	044 - 30210305 044 - 30210306 044 - 30210307	sromem@icai.in srofrm@icai.in
4.	Accounts	Acknowledgment letters of Membership/ Students Fees paid	044 - 30210325 044 - 30210326	sroacc@icai.in
5.	IPCC Orientation and ITT Training		044 - 30210314	sro-orientation@icai.in sroitt@icai.in
6.	Student Counsellor (For Career Counselling Programmes as well)		044 - 30210334	sro_counsellor@icai.in
7.	Regional Head including SIRC matters Dr. P.T. Giridharan, Joint Director		044 - 30210303	giridharan@icai.org

SOUTHERN INDIA REGIONAL COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA (SIRC OF ICAI)

All Matters relating to CPE Programmes, GMCS-I, GMCS-II, Coaching Classes, SIRC Newsletter.

CONTACT DETAILS

Sl. No.	Department	Purpose	Phone	Email
1.	SIRC of ICAI	CPE Programmes	044 - 30210320	sirccpe@icai.in
2.	SIRC of ICAI	GMCS-II/Coaching Classes	044 - 30210322	sircclasses@icai.in
3.	SIRC of ICAI	GMCS-I/Students related Activities (SICASA)	044 – 30210321/363	sirc@icai.in
4.	SIRC of ICAI	SIRC Newsletter	044 – 30210323	sircnewsltr@icai.in
5.	SIRC of ICAI	Accounts	044 – 30210362	sircaccounts@icai.in
6.	SIRC of ICAI	Administrative Incharge Dr. T. Paramasivan, Senior Dy. Director (Tech.)	044 – 30210361	sirc@icai.in tparamasivan@icai.in

In view of the very large number of students and members to be serviced, kindly resort to email communication and provide sufficient time to respond.

FOR MEMBERS/STUDENTS IN THE STATE OF KARNATAKA

CONTACT DETAILS OF OFFICERS AT DCO - BANGALORE

Contact Person	Designation	Subject	Telephone No	Mail-Id
Mr. K R Kulkarni	Executive officer	Member Related Queries	080 30563542 9448387853	krkulkarni@icai.org
Mr. S V Raghavendra	Executive officer	Student Related Queries	080 30563545 9886042556	svraghavendra@icai.org
Mr. N S Jagadish Kumar	Asst. Secretary	Escalation for unanswered queries	080 30563541 9342732548	jagadish.ns@icai.org

CPE SEMINAR ON COST AND FINANCIAL MANAGEMENT

December 1, 2012 - Chennai

Resource Persons

CA. V. Pattabhi Ram
Chennai

CA. S.A. Murali Prasad
Chennai

CA. R. Sivakumar
Chennai

CA. R. Sundarajan
Chennai

INVESTOR AWARENESS PROGRAMME

December 14, 2012 - Chennai

Resource Persons

CA. S. Muralidharan
Karaikudi

CA. A. Ravichandran
Pudukottai

Shri Srikanth
Chennai

Shri V. Badri
Chennai

TWO DAY IT AUDIT AND SECURITY SUMMIT - 2012

December 14 & 15, 2012 - Chennai

CA. K. Viswanath, Chairman, SIRC, inaugurating the Two Day IT Audit and Security Summit

Panel Discussion (Panelists: CA. C. Anand Jangid, Bangalore,CA. S. Sunder Krishnan, Mumbai and CA. A.R. Parthasarathy, Chennai)

CA. Babu Jeyendran
Bangalore

CA. R. Vittal Raj
Chennai

Dr. K. Prabhakar
Chennai

CA. S. Sathya Narayanan
Chennai

Shri K. Satyajit
Chennai

CA. S. Sunder Krishnan
Mumbai

CA. C. Anand Jangid
Bangalore

CPE SEMINAR ON CORPORATE LAWS

December 18, 2012 - Chennai

Resource Persons

Shri B. Ravi
Chennai

CA. Ambati Chinna Gangaiah
Hyderabad

CA. N.R. Sridharan
Chennai

TWO DAYS SEMINAR ON TAXATION

December 21 & 22, 2012 - Chennai

CA. K. Viswanath, Chairman, SIRC, addressing the Delegates.

Resource Persons

Shri Vinod Singhania
New Delhi

CA. T.G. Suresh
Chennai

CA. N.S. Srinivasan
Chennai

CA. V. Karthikeyan
Chennai

CA. V. Raghuraman
Bangalore

CA. J. Murali
Chennai

CA. M. Harisudan
Chennai

CA. Prasanna Krishnan V
Chennai

CPE STUDY CIRCLE MEETINGS

Resource Persons

12.12.2012

CA. Pradeep Narayanan
Chennai

19.12.2012

CA. M. Kandasami
Chennai

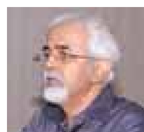
26.12.2012

CA. J. Murali
Chennai

ADVANCED EXCEL FOR CAs

December 22, 2012 - Chennai

Resource Person


CA. K. Srinivasan
Tiruchirapalli

HALF - A - DAY CPE CEMINAR

December 31, 2012 - Chennai

Resource Person

CA. A.P. Prakasan
Chennai

GMCS VALEDICTORY

December 05, 2012 - Chennai

Mr. Palanichamy,
All India Radio News Director,
Chennai. Addressing

BRANCH VISIT BY CHAIRMAN SIRC

Tuticorin Branch - December 20, 2012

Tirunelveli Branch - December 20, 2012

Sivakasi Branch - December 21, 2012

Pondicherry Branch - December 26, 2012

S. VAIDYANATH AIYAR MEMORIAL LECTURE

December 21, 2012 - Chennai

Dr. S. S. Badrinath, Chairman Emeritus, Sankara Nethralaya, Chennai interacting with the Members in the presence of CA. K. Viswanath, Chairman, SIRC of ICAI

D. RANGASWAMY MEMORIAL LECTURE

December 22, 2012 - Chennai

Hon'ble Justice Shri V. Ramasubramanian, Judge, Madras High Court delivering the Memorial Lecture

CENTENARY CELEBRATIONS OF LATE CA. K SADAGOPACHARI

December 28, 2012 - Chennai

Hon'ble Justice Shri S. Ranganathan, Judge, Supreme Court (Retd.) delivering the Memorial Lecture

CPE SEMINAR ON INTERNATIONAL TAXATION

December 29, 2012 - Chennai

CA. K. Viswanath, Chairman, SIRC, inaugurating the Seminar on International Taxation

Resource Persons

CA. T.P. Ostwal
Mumbai

CA. Sivam S
Chennai

CA. T. Banu Sekar
Chennai

Shri. V. Niranjan
Chennai

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