



The Chartered Accountant Student

STUDENTS' NEWSLETTER OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

YOUR MONTHLY GUIDE TO THE CA NEWS, INFORMATION AND EVENTS.

PRESIDENT'S COMMUNICATION



Dear Future Torchbearers,

The results of the great Indian elections are out and gala celebrations are on. The people have given their verdict. They have voted not only for the Government of their choice but also for stability and progress. This time the vote has been more decisive ensuring that there is no hung Parliament. I am sure with this verdict the stability of the government and confidence in its action will increase and it would be able to function without much political pulls and pressures.

This will also have a positive impact on commerce and industry. The share markets, that were already in positive mode on account of receding recession fears, have also responded jubilantly. On the day immediately after the declaration of results, upper circuit breakers were used and trading was halted.

I am confident that all this would translate into the creation of more opportunities for our profession. The onus on our profession to play a bigger role in nation building would be far greater. As young students you have to gear up to face these challenges and welcome the opportunities with open arms. That is possible only by taking your training period and examinations with the sincerity and dedication they deserve.

Diamond Jubilee Year Celebrations

To commemorate this landmark year, it has been decided to organise various events on various social, contemporary and emerging areas. In the last sixty years, the Institute has constantly been trying to do more and more activities and provide better facilities and services to its members and students. However, on this auspicious occasion, we thought that it was time we do something for the society at large also. Therefore, we have dedicated every month starting from July to some social cause.

The month of July is dedicated to the theme of "Go Green" wherein various activities will be undertaken throughout the country by Head Office, Regional Offices and Branches to create awareness and activation drives such as plantation of saplings, Go Green Run at Agra and other cities, collaborating with local municipalities and traffic police for a pollution free environment, advocating use of solar power or CFL bulbs, discouraging use of plastic bags, amongst other initiatives.

Similarly the month of August is dedicated to Educational Initiative and IT Training wherein school kits and educational aids will be distributed and IT Training will be imparted to the economically poor people. In the month of September career counselling programmes will be held to guide students to choose a career path most suitable to his/her abilities and aptitude.

In the month of October, focus will be on empowerment of people focusing on social empowerment, economic empowerment and empowering women. November will be dedicated to Agriculture. Even though our country is an agro-based economy, the farmers are uneducated and are unaware of how to raise loans, insure their crops, increase productivity or market their produce. By collaborating with banks, insurance companies and agriculture based institutions a mass awareness drive will be undertaken throughout the country. This will also enable our members to offer yeomen services to a sector that has been vastly neglected.

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Invitation to Contribute Articles in the Newsletter

Articles are invited from members, academicians, students and others for inclusion in the Newsletter. An article should comprise of 2000 to 4000 words. Articles written by the students are especially encouraged. Every year, the Institute selects two best articles contributed by the students in the Newsletter and Cash prize and a certificate is awarded to the winners at the Annual function of the Institute.

The articles received are reviewed by the faculty and, if found suitable, are published in the Newsletter. The authors are advised to enclose the following along with the articles:-

1. A formal & signed undertaking in the form of a letter stating that the article is original in all respects and does not infringe any copyright and has not been published elsewhere or has been sent for publication.
2. A latest passport size colour photograph (with full name and registration number written on the back of the photograph).
3. A soft copy of the article.
4. Complete contact details including mobile number and e-mail address.

Articles received without the details/enclosures specified above will not be considered.

All correspondence in this regard should be addressed to The Board of Studies, ICAI, A-94/4, Sector-58, Noida – 201301.

MESSAGE FROM THE PRESIDENT

(Continued from page 1)



The month of December is dedicated to programmes on Public Awareness and January on various sports and youth related activities.

All these specialised activities throughout the country will provide you with abundant opportunities to involve yourself and play a proactive role in this Diamond Jubilee Year by contributing towards nation building and betterment of society. So I hope to see all of you in large numbers to support the Institute to carry out its social objectives in the Diamond Jubilee Year.

Three Months Residential Programme

In the present era, 3C's are considered very vital viz. Communication, Confidence and Commitment. To be a successful professional, you need to learn and practice these 3 Cs rigorously. In this regard, immortal lines of Henry James, Jr. can be put as "Ideas are, in truth, forces. Infinite, is the power of personality. A union of the two always makes history." At our institute, we always strive hard to achieve excellence in our profession as we take it as an opportunity to prove our mettle before the rest of the world.

At the global level, the role of Indian Chartered Accountants is becoming bigger and wider as the graph of expectations is scaling new heights. We can live up to these expectations and deliver our best, only when we are well equipped with competencies and set skills. This makes us fully aware about the significance and dynamics of personality. Our sincere efforts to mould your career by organising Three Months' Residential Training Course on Soft skills are showing very significant results. The next batch is scheduled in National Institute of Financial Management, Faridabad. You must register early.

International Conference for Students

Our profession is increasingly getting more and more recognition abroad. The services rendered by an Indian Chartered Accountant is sought by many countries. To create more avenues for our members we have entered into MRAs with ICAEW and CPE Australia. Therefore, it is time that we equip you with the nuances of international practice. Keeping that in mind, we have decided to organise an International Conference for you so that you gain sufficient exposure and knowledge in the field of international practice. This is the first time that such a Conference is being planned and I am sure that many of you who are inclined towards this field of practice would enroll in large numbers and benefit from the flood gates of opportunities that await you.

Better Services through Technology

During my various interactions with many of you, I realised that very few students visit the Institute website. This is largely due to the fact that there is hardly any news and information available for the students. Therefore, a new website

exclusively for you will be launched on 31st May, 2009. More modules will be added subsequently in order to ensure that you can get all the information you need, pay your fees, order publications, appear for online examinations, enroll for programmes and seminars, blog and social network amongst other things at a click of your mouse. This new website will enable you all to get speedy information and integrate the entire student community together. Your suggestions would be welcome so that we can make the website to meet all your requirements.

In keeping with my mission to provide better services to students, more and more initiatives are being taken to keep our Institute at the forefront of technology. We will provide better and user-friendly services to our members and students by introducing IT enabled systems under the project 'Parivartan'. The aim is to re-look at our business processes and in this regard I am pleased to inform you that Infosys Technologies has been awarded the contract for the study of Enterprise IT Architecture for ICAI. As a part of the study, Infosys will deliver enterprise IT strategy, blueprint of enterprise IT infrastructure and IT Roadmap documents. The study will prepare the Institute to develop and implement next generation Information and Communication Technology to provide web enabled IT services and world class IT education to members and students.

The Motto Song

To instill pride and a sense of belonging, you will be glad to know that the motto song of the Institute is now available on the website of the Institute. You may download the same and store it in your mobile phones and play it as a ring tone. This unique ring tone will distinguish your mobile ring tone from all the other ring tones and make you part of an elite profession and set you apart from all the other mobile users.

Examinations

With the examinations fast approaching, I am sure many of you must be working hard to excel and pass with flying colours. I am sure your sincere efforts would pay-off and you will be able to join the profession soon. However, I would like to advise all of you to have a practical approach to examinations and understand the intricacies of the subjects rather than just cram them up and stuff them in your mind. So be focused on your studies with a single minded sense of purpose – to do well in your examinations. Once you have made up your mind to excel, nothing can stop you to achieve your goal. I sincerely wish all of you the very best in your endeavour.

CA. Uttam Prakash Agarwal

BASEL II NORMS – AN OVERVIEW

Arjun Sunder



Introduction

It is often remarked that change is something that never changes. This statement truly reflects the incidents occurred in Indian economy during last two last decades. Indian economy, especially banking sector, has witnessed a vast array of changes, which include change in asset recognition norms, deregulation of

interest rates, adoption of sophisticated technology and customer centric banking. It must be noted that banks across the globe have experienced drastic changes during the same period. Increasing exposure to off-balance sheet items, virtual distribution of services, rising emphasis on fee based services and high (sometimes perilous) exposure to capital market are some significant trends in global banking industry. This high pace of change has forced central bankers across the world to pool their resources for formulating robust norms to regulate a dynamic industry. These norms are expected to prevent financial collapses and foreclosures, thereby, enhancing the public trust in banking system. However, proper understanding of these norms is critical for their effective implementation, which is critical to improve the financial stability of banks.

Basel II norms – A brief history

Basel II norms are a set of guidelines formulated by Basel committee on Banking Supervision (BCBS), a committee formed at Bank of International Settlements (BIS) in 1975 for effective risk management, meaningful compliance and protection of interest of different stake holders engaged in banking transactions. Basel is a Swiss town, where the headquarters of BIS is located. BIS, formed on 17th May, 1930, is an international organisation of central banks to foster monetary and financial co-operation. It acts as a forum to promote discussion and policy analysis among its 55 member central bankers. BCBS was formed in 1975, following the collapse of Herstatt bank (1) to monitor cross border capital flows and internationally active banks. Basel Capital Framework known as Basel I Accord (2) was formulated in 1988. It prescribed Capital to risk weighted Assets (CRAR) ratio to be maintained by banks for their

financial stability. Basel I norms are presently adopted by central bankers across the world and are applicable to all commercial banks in India. Basel II norms seek to overcome limitations and rectify anomalies of Basel I Accord. Basel II norms were formulated in June 2004 by BCBS. It sets meaningful compliance requirements for commercial banks.

Risks identified under Basel II norms

Basel II norms have identified wide range of risks faced by banks, while conducting their business. A proper understanding of these risks is necessary to appreciate the relevance of Basel II norms. Meaning of different risks identified under Basel II norms is given below.

1. **Credit risk:** It refers to the risk that the borrower or counterparty fails to meet his obligations as per agreed terms, e.g. risk that the borrower fails to repay the loan amount and interest due. Credit risk depends on credit worthiness of borrower, repayment capacity and purpose of loan.
2. **Market risk:** Market risk refers to possibility of loss faced by banks due to change in market variables. It consists of following components.

Interest rate risk: It refers to the risk that the bank's net income and value of assets get adversely affected due to change in interest rates. For example, recent rise in rates has resulted in Mark to Market (MTM) losses for many banks.

Liquidity risk: It implies the potential inability to meet the bank's liability as they become due, e.g. a bank's failure to repay deposits as they fall due.

Foreign Exchange risk: It refers to potential losses due to exposure towards forex market. For example, real and notional losses suffered by banks on forward contracts due to movement of exchange rates in the direction unexpected by bankers.

Commodity Price risk: It refers to the possibility that the bank may suffer losses due to movement in commodity prices. For example, fall in price of rubber may adversely affect repayment capacity of rubber farmers who are customers of bank, which in turn affects bank's income.

3. **Operating risk:** It refers to the risk that the bank's net income and assets get adversely affected due to defects in operations or business processes of bank. It arises due to gaps in people, processes and technology of the bank. It includes fraud risk, regulatory risk, personnel risk and technology risk.

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Salient features of Basel II norms

Basel II norms rest on three pillars, namely, Minimum capital requirements, Supervisory review and Market discipline.

Minimum capital requirements: As per Basel II norms, the banks should have sufficient capital to meet the above mentioned risks. It prescribes the methods to be adopted by banks for the measurement of capital funds to meet each of these risks. Unlike previous approach, it requires that regulatory capital shall be provided against operational risk.

Supervisory review process: Basel II norms propose detailed supervisory review and frequent communication between bankers and regulators. The procedures adopted by banks to assess capital adequacy are termed as internal capital adequacy procedures (ICAAP). It specifies that the banks should have efficient processes to assess and monitor capital adequacy levels on a continuous basis. The regulator should evaluate the efficiency of these processes to ensure that capital adequacy of banks never fall below the prescribed levels. After detailed review of bank's risk profile and risk mitigation strategies, supervisor may require banks to provide additional capital. Additional capital requirements are specified by supervisor, when risk management techniques are found to be weak or ineffective.

Market discipline: This pillar lays stress on transparent reporting on risk exposures and risk management mechanisms of banks so that public can evaluate the competence of banks to manage their exposure towards various risks. It focuses on effective public disclosures of banks and is complementary to other two pillars. It presumes that markets would be quite responsive to the disclosures made by banks and they will be duly rewarded or penalized based on information disclosed by bankers to comply with this pillar. It forces banks to disclose their risk management practices so that safe and sound banking practices can be encouraged.

Capital Adequacy under Basel II norms

Under Basel II norms, banks must maintain capital charge against each of these risks identified under these norms. Rules/Approaches for computation of capital charge against different risks are given below.

Credit risk:– Basel II norms permit use of two approaches for the computation of capital charge namely standardized approach and Internal rating based approach.

a) **Standardized Approach:**– Under this approach, the banks shall maintain capital funds equivalent to 8% of the risk weighted assets. Capital funds consists of Tier I capital, Tier II capital and Tier III capital (5). Tier I capital includes equity funds, free reserves, Innovative perpetual debt instruments (IPDI) and capital reserves arising out of sale of assets. Tier II capital includes subordinated debt (4), Investment fluctuation reserve, and Revaluation reserve and hybrid capital instruments. Tier I capital is considered to be of highest quality because it will be fully available for covering losses.

Risk weights assigned to claims on Sovereigns and their

central banks under Basel II norms are given in the following table.

Credit risk rating	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-
Risk weight assigned	0%	20%	50%	100%	150%

Source: www.bis.org

However Basel II norms specify that the national supervisor (RBI in case of India) can permit banks to apply lower risk weights in case of advances to their sovereign. Similarly national supervisors are given some discretion in prescribing risk weights for other categories of assets.

Risk weights assigned to claims on corporate (i.e. loans to companies) depends on the credit rating of the company

Risk weights assigned to different types of claims are given in following table

Credit risk rating	AAA to AA-	A+ to A-	BBB+ to BB-	Below BB-	Unrated
Risk weight assigned	20%	50%	100%	150%	100%

Source: www.bis.org

Risk weights assigned to other assets are given in following table

Type of loan	Risk weight attached
Retail loan	75%
Loan secured by residential mortgage	35%
Loans secured by commercial real estate	100%

Source: www.bis.org

National supervisors have high discretion and flexibility in determining risk weights for inter bank loans and loans given to securities firms. Similarly risk weight assigned to overdue loans should be at least 150%. A higher risk weight may be assigned depending on amount of provision and discretion of national supervisor.

b) **Internal Ratings Based Approach (IRB):** This approach recognizes risk components such as probability of default, loss given at default and earnings at default. In



foundation IRB, borrower is rated and probability of default, based on estimates of potential future losses, is computed by bank's management. The remaining risk components such as loss given at default and earnings at default are provided by regulators. In advanced IRB approach, all the

three components of credit risk are estimated by bank's management.

Market risk: Basel II norms permit use of two approaches for the measurement of capital charge for market risk, namely internal model based approach and Standardized duration approach (3). Internal model approach is more sophisticated than standardized duration approach, which is presently adopted under Basel I Accord to compute capital charge. Under



Standardized duration approach capital charge for market risk is provided on each security in Held for Trading (HFT) and Available for Sale (AFS) categories, open positions of Forex derivatives and equities held in trading book.

Operational risk: Under Basel II, norms may follow either Basic Indicator approach or advanced measurement approach for the measurement of capital charge. Under Basic Indicator approach, banks are required to maintain a fixed percentage of operating income as capital charge. Advanced measurement approach is a highly sophisticated approach, which is in the process of evolution.

RBI guidelines and initiatives on Implementation of Basel II norms

According to RBI guidelines, foreign banks operating in India and internationally active Indian banks (i.e. banks with overseas presence) have to comply with Basel II norms w. e. f 31/3/2008. For other banks, the deadline to comply with Basel II norms is 31/3/2009.

RBI has formulated guidelines with regard to three pillars, which are briefly described below.

Minimum Capital Requirements (Pillar I):– RBI has adopted easier and less complicated models for measurement of regulatory capital from the menu of options provided in Basel II norms. This is because historical database of customers, highly skilled human resources and sophisticated technology are prerequisites for adoption of advanced models. Approach/Method for computation of capital charge for different risks are given in following table.

Type of risk	Approach for computation of capital charge
Credit risk	Standardized approach
Market risk	Standardized duration approach
Operational risk	Basic indicator approach

Commercial banks with superior technology may migrate to advanced approaches. However, migration to advanced approaches can be done only with prior permission of RBI.

Supervisory Review (Pillar 2):– As per RBI guidelines, banks shall form a committee for internal capital adequacy assessment. The formation of such committee must be approved by the boards of concerned banks. The work of committee will be periodically reviewed by RBI officials to

ensure that capital adequacy never falls below the desired levels. This enables RBI to evaluate various risks faced by banks and their ability to manage such risks. RBI's Board for Financial Supervision (BFS) has already taken initiatives to conduct supervisory review of risk sensitive banks. In the first round, a framework was developed to monitor systemically important individual banks. In the second round of Supervisory review undertaken in January-March 2007, the exposure of select banks to sensitive sectors, particularly, to the real estate was analyzed. Ten banks with real estate exposure and capital market exposure in excess of 200 per cent and 25% respectively, of their net worth were identified. In second phase, an onsite examination was conducted to assess the risk exposure of individual banks with reference to their control environment, procedures and compliance with regulatory norms. Through supervisory review, RBI aims to assess the quality of bank's procedures to evaluate, monitor and manage risk.

Market Discipline (Pillar 3):– This pillar focuses on effective public disclosures to be made by banks. A set of disclosure requirements have been prescribed by RBI to encourage market discipline. RBI guidelines state that the banks should have a policy on disclosure, which covers disclosure of exposure to risky sectors and risk management techniques.

As of now, RBI has prescribed a Capital Adequacy Ratio (CAR) of 9%. Under Basel I Capital Accord, 9% CAR implied that capital funds shall be at least 9% of risk weighted assets. Computation of CAR under Basel II norms is given below.

$$CAR = \frac{\text{Capital funds}}{\text{risk weighted assets} + 11.1 \times \text{capital charge for market risk and operational risk}}$$

Capital charge for operational risk and market risk is multiplied with 11.1 to align the same with risk weighted assets, which shall be at least 11.1 times of capital charge for credit risk.

Challenges faced by banks in implementation of Basel II norms

The implementation of Basel II norms will have profound impact on banks, corporates and other sectors of economy. It forces banks and its customers to adopt better risk management practices and judicious use of available funds. It creates challenges for bankers, companies, rating agencies, investors and other related parties. Some significant challenges faced by Indian banking sector are highlighted below in following points

Technological upgradation: Banks with appropriate risk management techniques will be rewarded under Basel II norms. Sophisticated information technology is required for efficient risk assessment and mitigation. Banks equipped with such technology may be required to maintain a lower capital charge. Conversely, banks without proper risk management systems may be required to maintain a higher capital charge, thus limiting their ability to grant more loans to different sectors.

Shortage of skilled human resources: RBI guidelines on

Basel II norms call for formation of a committee for internal capital adequacy assessment. Such committees must be manned by dynamic and dedicated individuals. ICAAP under these norms also require formulating efficient internal procedures for assessing capital adequacy on a timely basis. This necessitates the need for individuals with superior skills and dynamism.

Data collection: Basel II norms create new information requirements in banking sector. New information is required for making disclosures mandated by Basel II norms and for effective compliance. Computation of probability of default, loss given default and supervisory validation require creation of database of customers. Maintenance of a dynamic customer database is critical for achieving success under Basel II regime.

High compliance cost: Compliance with Basel II norms demands high investment in IT infrastructure and capacity building of staff. This high cost of compliance may affect profitability of banks in short run.

Competition for clients with good credentials: Since capital required to be maintained in case of advances to an AAA rated client is lower, there will be intense competition among bankers for clients with good track record. This may force bankers to reduce rates for loans advanced to companies with good credit rating. This in turn will reduce the profits of banks. This problem is further aggravated by the fact that only a small proportion of Indian companies are rated.

High capital requirements: Basel II norms require bankers to maintain capital charge against market risks and operational risks. This is especially difficult for banks in view of present downturn in capital markets. This cripples the expansion plans of banks.

Incentives of Companies to remain unrated: Under Basel II norms, advances given to a company with poor credit rating attracts more capital charge compared to companies with no rating. This encourages companies with poor track record and less credit worthiness to remain unrated.

Conclusion

Banking is not what it used to be. Services/Products marketed by banks range from ordinary loans to complex forex derivatives contracts. So, it is time to redefine the risk profile of commercial banks. Compliance with Basel II norms provide banks an opportunity to examine the risks and formulate strategies. However, it should be noted that implementation of Basel II norms is not a one time solution to the problems faced by banking sector. On the contrary, compliance with Basel II norms may create temporary problems for Indian banks. This is because it requires skilled manpower, sophisticated technology and judicious use of capital. It may force banks to change their business models and processes. Unlike other compliance requirements, compliance with these norms is not a routine task. However, it is clear that compliance with these norms will help banks to improve their financial stability and provide value added services to customers. Implementation of Basel II norms also poses serious challenges to regulators and rating agencies. For example, regulators are expected to evaluate competence of risk management models formulated by banks under advanced approaches.

Risk is the potential of both expected and unexpected events

having an adverse impact on banks' capital or earnings. Capital adequacy ratios are aimed to ensure that banks maintain a minimum amount of own funds in relation to the risks they face so that banks are able to absorb unexpected losses. Capital ensures that unanticipated market situation or deterioration in borrower credit quality does not present any serious challenge to bank's solvency. The current global financial crisis underscores the need for capital funds and dangers of high leverage. So, let us hope that implementation of Basel II norms with proactive participation of bankers, borrowers, regulators and rating agencies can go a long way in creating financially sound banks and thereby maintaining financial stability of entire economy.

Explanations

1. Herstatt Bank: Herstatt Bank went bankrupt on 26th June 1974 due to financial difficulties. That day, a number of banks had released payment of DEM (Deutsche Mark-German currency before adoption of Euro) to Herstatt in Frankfurt in exchange for US \$ that was to be delivered in New York. Because of time-zone differences, Herstatt ceased operations between the times of the respective payments. The counterparty banks did not receive their US \$ payments.
2. Basel I norms prescribe that banks shall maintain capital funds equivalent to at least 8% of their risk weighted assets. Risk weighted assets of a bank implies loans provided by banks to different borrowers multiplied with relevant risk weight. Risk weight attached to each loan depends on credit worthiness of borrowers estimated under guidance of Basel I norms.
3. Standardized duration approach: Duration is a measure of an assets sensitivity to changes in interest rates expressed in number of years. In this approach, capital charge for market risk is measured by calculating duration of each investment (positions) separately on a daily basis. Reason for expressing the sensitivity in number of years is because the longer the time to receive first cash flow, the more interest can be accumulated.
4. Subordinated debt: It refers to debt, whose repayment is subject to the claims of other creditors. To be eligible for inclusion in Tier II capital, it should satisfy following conditions:
 - It should have an original maturity of at least 5 years.
 - It should have a remaining maturity of 1 year as on the date of computation of Tier II capital
5. Tier III capital: It refers to subordinated debt raised by banks for very short period to cover market risk. It has following features:
 - Original maturity period of such debt shall not exceed 2 years
 - It cannot be repaid before agreed repayment period without RBI approval

Revision Test Paper – June 2009 Examination

Students may please note that the question No.8 in the subject of Auditing for the Final (Old) Course in the revision test paper for June, 2009 examination and question No.7 (c) in the subject of Auditing for the Final (New) Course in the revision test paper for June, 2009 examinations have been inadvertently based on provisions which are no longer currently applicable. Hence students are advised to ignore these questions.

18 CPE
Hours for ICAI
Members

ICAI Diamond Jubilee International Conference

"Winds of Challenges – Global Strategies for Accounting Profession"

3rd – 5th July, 2009,
Hotel Jaypee Palace, Agra, India



Organised by
The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

About Agra & the Conference

Agra is a city on the banks of the Yamuna River in the northern state of Uttar Pradesh, India. Agra, a feather in the cap of "Incredible India", also possesses the most precious jewel in the country's crown the "Taj Mahal". It showcases the vibrant local culture with all the archaeological marvels like Agra Fort and Fatehpur Sikri which are part of our rich heritage. This splendidly beautiful city and a major tourist destination would be the host city for this International Conference.

ICAI is celebrating its Diamond Jubilee this year and coinciding with its celebrations, the Institute would be hosting International Conference on the theme 'Winds of Challenges – Global Strategies for Accounting Profession' on July 3 – 5, 2009 at Hotel Jaypee Palace, Agra.

As the world veritably transits to being 'Global Village'; the accounting profession as an integral instrumentality, in this process of transition has witnessed a paradigm change in its contributory role in every sphere of the transformation; financial reporting being the core. The shift in the business philosophies due to dawn of a new trade order further emphasizes a broadened role for the accountancy professionals as strategy formulators and facilitators. Moving to such role of a value creator, the Institute has endeavoured to imbibe the best practices globally and has been playing the role of an enabler by getting its

150,000 strong membership base to acclimatise themselves with such practices. What classically holds out for the accountancy profession is the universal lexicon which is a common thread for accountants across the globe. One sees the emergence of shift to convergence in technical standards globally and this International Conference eloquently epitomizes the same.

Our world today is of Internet links, global networking, dissolving business frontiers and shrinking distances. With the shrinking distances, the whole world now is just one globe; newer ideas and knowledge at our doorstep; globalisation is the reality of today and a new world is fast emerging. In this scenario, Accountants should acquire requisite knowledge and skills, on one hand, and organisational and operational strength, on the other, in order to be able to compete globally.

This Conference will dwell on the topical issues related to Governance, Financial Engineering, Regulatory Compliance, Value Creation, Corporate Social Responsibility and the like. The International Conference would be congregation of renowned experts in the area of accounting, auditing and management from IFAC, IASB and other international bodies including leaders from Trade and Industry in India expected to do honours at the Conference.

MESSAGES



By organising this mega international Conference, the Institute, has provided a forum to equip its members with the emerging trends globally, where they could discuss and debate with best of resources and update themselves with world trends.

CA. Uttam Prakash Agarwal, President & Conference Chairman



Accounting Profession is faced with several accounting and reporting issues at present. The same need to be addressed with a view to bring greater transparency and credibility to the financial statements and reporting. It would lead to better corporate governance and promotion of stakeholders.

CA. Amarjit Chopra, Vice-President & Conference Vice-Chairman

Programme Schedule

Day 1 (Friday, July 3rd, 2009)

Breakfast and Registration (9.00 a.m.)

Inaugural Session (9.30 am to 10.45 am)

Technical Sessions (11.00 a.m. to 5.30 p.m.)

Global Competitiveness: Impact of Convergence of Accounting Standards

- Transition to IFRS: Managing Expectations / Meeting Today's Challenges
- Moving Towards Complete Convergence to IFRS

Lunch Break (1.00 p.m.)

Governance Mandate: Professional Mindset

- A Perspective on Convergence of Auditing Standards
- Role of Accountant – Corporate Governance Beyond Statutory Framework

Key note Address(es)

- Insurance Sector: Sunrise Industry for CAs
- Meeting Global Business Competition, World's Best Practices

Professional Opportunities Beyond Frontiers

- By ICAI Overseas Chapters Chairmen

Cultural Extravaganza on the Indian Cultural Heritage Theme

(7.00 p.m. onwards at Kalakriti, Fatehabad Road, Agra)

Dinner: 9.00 p.m. Onwards

Day 2 (Saturday, July 4th, 2009)

Breakfast (9.00 a.m.)

Technical Sessions (9.30 a.m. to 5.30 p.m.)

Key Note Address

- Bridging the Expectation Gap: Changing Dimensions of an Accountant's Role

Special Address

- Reforms in Government Accounting: Issues and Perspective

Emerging Paradigm for Profession

- XBRL: Future of Financial Business
- Challenges Before the Profession

Lunch Break (1.00 p.m.)

SAFA Panel Discussion: Synergy through Harmonization for Moving Ahead in Knowledge Era

Global Imperatives: Development Context

- Creating Professional Opportunities Through Partnership in Economic Development

Challenges and New Approaches

- Contemporary Issues in International Taxation
- Financial Market Crisis – Learning Lessons

Cultural Extravaganza on the Bollywood Theme

(7.00 p.m. onwards at Kalakriti, Fatehabad Road, Agra)

Dinner: 9.00 p.m. Onwards

Day 3 (Sunday, July 5th, 2009)

Go Green Run (6.30 a.m. from Hotel Jaypee Palace to Hotel Taj Khema, Agra)

Breakfast (9.00 a.m.)

Technical Sessions (9.30 a.m. to 4.00 p.m.)

Special Session - CEOs: Meeting Governance Mandate through Entrepreneurial Vision

Special Session - Environmental Accounting Strategy for Competitive Advantage

Carbon Credit and Business Finance

- Accounting and Taxation Issues

Lunch Break (1.00 p.m.)

Value Creation: Challenges & Opportunities of Capital Market, Banking and Insurance Sector

- Changing Dimensions of Tax Regime in India
- Capital Market Reforms and Stakeholders Promotion – An Accountant's Perspective
- Maintaining Resilience to Risk and Shock

Special Address

- Landscaping Accountancy Profession in New Trade Order
- Role of Public Sector in National Development

Valedictory Session (4.00 p.m. to 5.00 p.m.)

- Professionalism as a Tool to Sustainability/Achieving Millennium Development Goals through Sustainable Development

Eminent Speakers Include:

- Sir David Tweedie, Chairman, International Accounting Standards Board
- Dr. Arnold Schilder, Chairman, International Auditing and Assurance Standards Board
- Mr. Ernie Almonte, President, American Institute of Certified Public Accountants
- Mr. Graham Meyer, CEO, ICA Australia
- Mr. Atul Kumar Rai, CEO & MD, IFICI Ltd.
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- Mr. M. D. Mallya, CMD, Bank of Baroda
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- Mr. Nishan Fernando, President, ICA Sri Lanka



The morning of 5th July, 2009 i.e. last day of the International Conference would witness the Agra Go Green Run, a mega initiative to integrate Chartered Accountants and students with people from all walks of life, who have concern for protecting the environment. Over 5000 people will run together to show that it is not about winning, its all about uniting for a greener tomorrow. We invite you to chase a dream and run for this noble endeavour.

The run would be from Hotel Jaypee Palace, Agra at 6.30 a.m. to Hotel Taj Khema, Agra.

Cultural and Bollywood Extravaganza

Kalakriti, Fatehabad Road, Agra, at 7 p.m. onwards followed by dinner

- 3rd July, 2009 – Indian cultural heritage theme
- 4th July, 2009 – Bollywood theme

ICAI Diamond Jubilee International Conference



"Winds of Challenges - Global Strategies for Accounting Profession"

3rd – 5th July, 2009,
Hotel Jaypee Palace, Agra, India

18 CPE
Hours for ICAI
Members

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Members/Students		Rs. 2750
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Non Members		Rs. 4000
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	Foreign Delegates	Rs. 3500
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Registration fee for delegates include: Delegate Kit, Entitlement to CPE Hrs. for ICAI Members, Inaugural Function, Technical Sessions, Trade Exhibitions, Lunch, Dinner and Cultural Extravaganza.

The cheques/DD may be drawn in favour of **"Secretary ICAI - Agra International Conference July 2009"**

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For hotel details at Agra, please visit the webpage, www.icai.org/icaiinternationalconference/main.html. Hotel rates (including taxes) per person per night on twin sharing basis (including breakfast) are given below. For booking at any of these hotels please remit the necessary amount to us. For further details please contact at 09897057757, 09412259954, 09760016002/ brijeshvermaca@gmail.com; jmcca@rediffmail.com

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Hotel Mansingh Palace	***	Fatehabad Road, Agra	2.50	lalsingh.agra@mansinghotels.com	0562-2331771-78	1575
Hotel Utkarsh Vilas	***	Fatehabad Road, Agra	1.00	sales@utkarshvilas.com	0562-2232971	1250
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Hotel Howard Park Plaza	***	Fatehabad Road, Agra	2.50	hppagra@sarovarhotels.com	0562-4001871-73	1000
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COMPANIES BILL 2008: RELAXING THE COMPLEXITIES

Rahul Kumar Bajaj



Introduction

The long awaited far sighted Companies Bill, 2008, was presented before the Parliament on the 23rd of October 2008. The Government constituted an Expert Committee in 2004 under the leadership of Mr. J.J.Irani with an objective to reform the legal framework as existing in India and to make the legal provisions hassle free from the existing complexities,. After thorough and continuous research, keeping in mind the global requirements of the competitive market and industry, the Bill was presented before the Parliament on 23rd October 2008.

The Bill seeks to propose some significant changes under the existing Companies Act with an attempt to relax the existing provisions and ease out the ambiguities.

Focus of the Article

The New Companies Bill, 2008 is a guide towards a developed, organized and systematic legal framework. At the very outset, it is very crucial to have the foreknowledge by prior reconnaissance of these new provisions and be vigilant in understanding the comparisons between the new provisions and the existing framework so that one can advise the correct perspective to the clients

The focus of this article is to bring out the comparison between some provisions proposed in the New Companies Bill, 2008 and the corresponding existing Companies Act, 1956. These are summarized as follows: -

S. No.	New Proposed Provision	Existing Provision
1	Any listed company having a combined of more than 1,000 Debenture holders Shareholders Other security holders is required to establish a Stakeholders Relationship Committee.	No requirement to form such Committee.
2	An investor's claim for dividend after a period of 7 years is not to be extinguished.	Under the current system of Company Law, any dividend not claimed after a period of 7 years from the Investor's Education and Protection Fund extinguishes.

3	The Bill has proposed a requirement for the consent of all the related party transactions by the public companies.	Transactions with parties related through a common director require approval from the Board.
4	The concept of Arms Length Pricing is proposed to be introduced.	No concept of Arms Length Pricing under the existing Companies Act.
5	The Bill has introduced the concept of Registered Valuers for all valuations regarding property, shares, stocks etc.	This concept of Registered Valuers does not exist under the existing laws.
6	The Bill has introduced the concept of One Man Company and Small Company which shall be incorporated as a non public company and have only one member and a minimum of only one director.	The concept of one Man Company does not exist at present.
7	Pursuant to steep increase in the business activities in the country, the limit as mentioned in the next tab is proposed to be increased.	As per section 11 of the Companies Act, 1956, no company, association or partnership consisting of more than 20 persons shall be formed for the purpose of carrying on any any business activities. (20 persons in case of banking business.)
8	The provisions regulating minimum paid up capital requirements u/s existing 3 of the Companies Act, 1956, are proposed to be withdrawn.	As per section 3 of the Companies Act, 1956, a private company needs to have a minimum paid up capital of Rs 1 lakh and a public company needs to have a minimum paid up capital of Rs 5 lakhs.
9	The Companies Bill, 2008 permits infrastructure companies to issue preference shares which are redeemable after the expiry of 20 years from the	As per section 80 of the Companies Act, 1956, a company limited by shares cannot issue preference shares which are irredeemable

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	date of issue.	or are redeemable after the expiry of 20 years from the date of issue.
10	The new Companies Bill, 2008 prohibits the issue of shares at a discount except in the case of sweat equity shares.	Section 79 of the Companies Act, 1956 permits the company to issue shares at a discount provided that certain conditions are satisfied.
11	The Bill makes it discretionary on the part of the company to transfer the profits to reserve before the declaration of dividend as it may deem fit.	As per the existing legal provisions, the company has to comply with the Companies (Transfer of Profits to Reserves) Rules, 1975 with respect to transfer of profits to reserves before the declaration of dividend. Accordingly, a company cannot transfer more than 10% of the profits to reserves unless it satisfies certain prescribed conditions.
12	Such condition of 95% is proposed to be done away with. Consequently, depreciation is required to be provided at the rates prescribed and where no rates have been prescribed, then at the rates approved by the Central Government.	Section 205 of the companies Act, 1956, provides for 95% of the cost of the asset to be provided as depreciation over the useful life of the asset.
13	The Bill proposes a minimum of 7 days notice prior to a Board Meeting. However, to transact some urgent business, a shorter notice can be accepted.	There is no provision under the existing Companies Act, 1956 which provides a time period for the issuance of notice of a Board Meeting prior to such meeting.
14	The time limit between 2 board meetings has been prescribed as 120 days. Further, the bill permits participation in the board meetings through Video Conferencing also which doesn't exist under the existing legal framework.	Under the existing legal provisions, section 285 of the Companies Act, 1956 specifies that a board meeting shall be held once in every 3 months and at least 4 such meetings shall be held in every year. Thus, it can be implied that a maximum of 6 months can elapse between 2 board meetings..
15	Voting through Postal Ballot has been proposed to be made applicable to all the companies.	Postal Ballot is permitted only to the Listed Companies.

16	Every contract or arrangement entered into with the Related Parties is required to be disclosed in the Director's Report along with a justification of entering into such transaction.	No such requirement under the existing law.
17	The Key Managerial Personnel have been prohibited to indulge in forward dealings in the securities of the company.	No such requirement under the existing law.
18	Further, every company is required to have at least one director who is ordinarily resident in India, i.e., resides in India for at least 182 days in the calendar year.	No such requirement under the existing law.
19	The bill proposes to introduce legal provisions providing for the resignation of directors.	No such requirement under the existing law.
20	The Bill proposes to withdraw the provisions relating to taking approval from the Central Government in cases of appointment of Managerial Personnel.	Section 269 of the Companies Act, 1956 requires the company to take approval from the Central Government in some cases relating to appointment of Managerial Personnel.
21	The Bill proposes to introduce a provision that a director shall be required to vacate his office if he has not attended all the Board Meetings for a continuous period of 12 months, with or without obtaining leave.	Section 283 of the Companies act, 1956 specifies that a director shall be required to vacate his office if he has not attended 3 consecutive board meetings or all the board meetings for a continuous period of 3 months without obtaining leave.
22	All the companies are mandatorily required to adopt year ending 31 March for the preparation of financial statements.	Under the existing provisions, companies are provided a flexibility to choose any year end for the preparation of financial statements.
23	Preparation and submission of Consolidated Financial Statements has been introduced in the Bill.	Under the existing section 212 of the companies Act, 1956, there is no requirement to prepare and present consolidated financial statements. Rather, the only requirement is to attach the

		financial statements of the subsidiary to the financial statements of the holding.
24	The financial statements are required to be signed by: - a Chairman or by at least 2 directors, one of whom shall be Managing Director or Chief Executive Officer.	Under the existing section 215 of the Companies Act, 1956, the financial statements are required to be signed by: - a Manager or Secretary, and by at least 2 directors, one of whom shall be Managing Director, where there is one.
25	The Board of Directors are not required to give explanations regarding reservations or adverse remarks contained in the Auditor s Report	Under the existing section 217(3) of the Companies Act, 1956, Board shall also be bound to give the fullest information and explanations in its report on every reservation, qualification or adverse remark contained in the auditors' report.
26	The Bill proposes a requirement of a special resolution to appoint a new auditor in place of the existing auditor.	Under the existing section 225 of the companies Act, 1956, if a company has to appoint a new auditor in place of the existing auditor, then, only an ordinary resolution is required along with a special notice.
27	The requirements of section 224A have been proposed to be done away with.	Section 224A of the existing Companies Act, 1956 requires a special resolution for the appointment of auditors in case 25% or more the subscribed share capital is held by specified institutions.
28	The company is required to intimate the auditor of his appointment in the company as well as intimate the Registrar of such appointment within 15 days	Under the existing section 224 of the Companies Act, 1956, the company is required to intimate the auditor so appointed within 7 days and further, the auditor so appointed is required to intimate the Registrar within 30 days of the receipt of communication from the company.
29	The Bill imposes a duty on the auditors of the company to attend the General Meetings of the company.	The existing company law framework gives a right to the auditors to attend the general meetings as against the duty imposed under the Proposed Bill.

30	The requirements of section 227(1A) relating to inquiry by the auditors on certain matters have been done away with.	The existing section 227(1A) of the Companies Act, 1956, requires the auditors to enquire on certain specified matters.
31	The Bill proposes certain additional restrictions on the appointment of the auditors, e.g.: - persons having business relationships with the company cannot be appointed as the auditors of the company.	The existing section 226 of the Companies act, 1956 provides certain restrictions/ disqualifications on the appointment of the auditors.
32	The Bill proposes the formation of special courts across the country for the speedy trial of offences committed under the Act.	Under the existing company law framework, there is no provision relating to the formation of such special courts.

Conclusion

I firmly emphasize that it is of utmost importance for us to remain vigilant about the proposed provisions in the New Companies Bill, 2008 and to understand them thoroughly. As can be witnessed from the aforementioned comparison, the Companies Bill, 2008 has a far reaching impact on the Indian corporate entities. The Bill proposes some significant provisions which are of national importance and certainly relax the existing legal framework in India.

Gyandarshan Live Lectures

The third series of the live lectures of CA CPT on Gyandarshan channel will telecast from 1st June 2009 to 15 June 09.

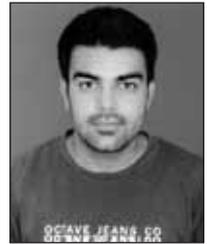
Students can ask their queries during studio timing at toll free no. 1800 11- 2345 or can e-mail us at bosgyandarshan@icai.org.

Students can view the LIVE TELECAST also on www.ignou.ac.in (First load VLC from www.videolan.org & click as per instructions, open www.ignou.ac.in & click Education Broadcast & then click Broadcast channel & then select gyandarshan II/edusat & then click Broadcast channel & then select gyandarshan II edusat & click to view.

The schedule will be hosted on website.

RANGE OF THREATS TO COMPUTER

Nikhil Sharma



Reid Goldsborough, author of the book, entitled, *Straight Talk about the Information Superhighway* has observed - "Viruses have an ominous and mysterious aura". Similarly, Charles Ritstein has written that

computer viruses have developed a reputation for destruction and mayhem that has prompted computer centres to take steps to protect themselves.

INTRODUCTION

As early as in 1949, John von Neumann, in his paper entitled, "Theory and Organization of Complicated Automata," postulated that a computer programme could reproduce. At that time, it was not known by the name virus. Len Alderman first used the term "virus" for self replicating software. The "Brain" virus and bouncing ball of the "Ping-pong" virus marked the victory of virus over the boot sector.

Early virus was pieces of code attached to a common program like a popular game or a popular word processor says Marshall Brain, a computer science expert.

CLASSIFICATION OF THREATS

Charles Ritstein has remarked about the history of the modern computer viruses, there has actually been a bit of controversy over the actual number of viruses that exist and the number of infections they really cause. Virus, Worm, Spyware, Adware, Grayware, Malware and Trojan horse are main categories of threats which pose danger to computer software. These all are covered under the expression "Malicious Code", according to National Institute of Standards and Technology, U.S. Department of Commerce.

➤ Trojan Horses

A legend goes that the Greeks won the Trojan War by hiding in a huge, hollow wooden horse to sneak into the fortified city of Troy. Similarly, now Trojan horse conveys malicious, security-breaking programme that is disguised as something benign. They may be games or some other software that the victim will be tempted to try.

They may be remote-access, data-sending, proxy or FTP trojans.

➤ Worm

It is that threat in which there is no host to hide and that replicates itself over a computer network or through e-mail and sometimes performs malicious actions such as using up the computer and network resources and possibly destroying data. It runs independently and travels across network connections.

- (a) Host computer worms, also known as rabbits, are entirely contained in the computer they run on and use network connections only to copy themselves to other computers.
- (b) Network worms also known as octopuses, consist of multiple parts each running on different machines and possibly performing different actions and using the network for several communication purposes.

➤ Email Bombs

When someone subscribes target user's email address to a large number of mailing lists, it is termed as email bombing. Being unknowingly subscribed to hundreds of mailing lists leads to incoming email traffic.

➤ Virus

It is self-contained and does not need to be part of another programme to propagate itself. It usually exploits some sort of security hole in a piece of software or the operating system.



Virus that can infect computer software can further be classified according to area of computer on which it acts or damages:

(a) Boot sector Virus

Boot sector is that area of the computer, which is accessed while the computer is turned on and a boot sector virus infects this area of computer. Once the boot sector is infected, the virus gets loaded into memory when the computer is turned on.

(b) TSR (Terminate and Stay Resident) Virus

A TSR virus is a virus that stays active in memory after the application (or bootstrapping, or disk mounting) has terminated. TSR viruses can be boot sector infectors or executable infectors. The Brain virus is a TSR virus.

(c) Parasitic Virus

It is activated when the executable file containing the virus is executed and acts upon executing code like system files. It is also known as Program/File infector virus.

(d) Multipartite Virus

A multipartite virus is a virus that can infect either boot sector or executables. Such a virus typically has

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two parts, one for each type. These are hybrids. When it infects an executable, it acts as an executable infector. When it infects a boot sector, it works as a boot sector infector.

(e) Macro Computer Virus

It needs macro language to function. Microsoft Word Documents, Excel Spreadsheets, Power Point Presentations, and Access Databases are mostly affected.

(f) Polymorphic Virus

It is written in such a manner that it changes its code whenever it passes to another machine, so that it is difficult for an anti-virus scanner to locate it. Flaws in the program code make it easy to track down these viruses. It is usually the encryption of the code that changes every time. Chameleon and Tequila are few examples.

(g) Stealth Virus

It tries to hide itself from the operating system and anti-virus products. It uses techniques to avoid detection by redirecting the disk head to read another sector or alter the file size shown in the Directory listing.

(h) Script Virus

It is a subset of file virus, written in a variety of script languages like JavaScript, VBS, BAT, PHP etc. It is also able to infect other file formats such as HTML

⇒ Dialer

It is a program that uses the computer's modem to dial telephone numbers, often without the user's knowledge and consent. It is capable of connecting to a toll number that adds long distance charges to the telephone bill without the user's knowledge or permission.

⇒ Adware

It is the programme that displays ads that the users don't want. It generates advertisements such as pop-up windows or hotlinks on Web pages that are not part of a page's code.

⇒ Spyware

It is the programme that sniffs out the user's surfing habits like sending information about user's work done on Internet to somebody else.

⇒ Malware

It is software that damages the system, causes instability, or exhibits anti-social behaviour. It is usually poorly-programmed and can cause computer to become unbearably slow. It works to remain unnoticed, either by actively hiding or by simply not making its presence on a system known to the user.

⇒ Scareware (Rogue)

It is software that appears to be beneficial from a security perspective but provides limited or no security. It generates

misleading alerts and false detections in order to convince users to purchase illegitimate security software.

⇒ Phishing

It is mainly an online con game and phishers are like tech-savvy con artists and identity thieves who use malicious Web sites, email messages and instant messages to instruct people to update personal information such as bank and credit card information or access to personal accounts.

FEW WAYS TO REMOVE VIRUSES

S.No.	Virus category	Way to remove
1.	Boot sector virus	Booting the computer using a clean boot disk
2.	Program/File infector virus	Deleting infected files
3.	Macro computer virus	Updating anti-virus scanner

HOW VIRUS INFECTS

Connection to network (Internet) is the easiest way to invite viruses. If precautions are taken, even a computer having Internet connection can easily be protected from web of virus and worms. Another thing that is capable of infecting is use of infected CDs, floppy or pen-drive etc. In case, any of them is already having a threat on their operation into the system, the system is likely to be infected. Spam or junk folder mostly indicates presence of some sort of virus.

PRECAUTIONS REQUIRED ON BEHALF OF USER

There are three main kinds of anti-virus programs - *known-virus scanners*, *behaviour blockers*, and *integrity checkers*. The first of these three kinds is the one which is the most commonly used nowadays – but it is not proactive. The other two are proactive – but they are not widely used. The reason, why they are not is that unlike the first kind, they do not provide simple and easy-to-understand reports to the user. Instead of “Found and removed the XYZ virus” (the kind of reports that the known-virus scanners produce), they produce reports like “Attempt to write to file FOO.EXE, allow or deny?” or “File BAR.EXE has changed since the last check” (integrity checkers). Both viruses and legitimate actions (file copying or installation of new software) can cause such reports.

CONCLUSION

Vesselin Bontchev (anti-virus Researcher FRISK Software International) has suggested that a critical element of a complete education for the graduating professional computer scientists must include knowledge about viruses, their nature and destruction.

Computer threats have evolved and it has become harder to detect them with every passing day. Each decade has brought with it innovations in computer threats as well as ways to detect and remove them. So, we can hope that better ways of avoiding and being safe from such threats are introduced, otherwise only our vigilance remains the remedy.

10th NATIONAL CONVENTION FOR CA STUDENTS

THEME: SYNERGIZE FOR A BETTER TOMORROW

Friday, July 10th and Saturday, July 11th, 2009

Venue: C. C. Mehta Auditorium, M. S. University, Sayajigunj, Vadodara 390 005

Organized by:

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Hosted by:

BARODA BRANCH of WIRC OF ICAI
& BARODA BRANCH OF WICASA

DAY 1

Inaugural Session: 9:00 a.m. to 10:30 a.m.

Special Session 1: 10:45 a.m. to 11:45 a.m.
Students Initiatives by ICAI

Topic

Recent Initiatives for Students by Board of Studies, ICAI:
CA Jaydeep Shah, Chairman, Board of Studies, ICAI.

Technical Session 1 : 11:45 a.m. to 1:30 p.m.
Fiscal Laws

Topics (4 Paper writers)

- 1) CENVAT Credit-Procedures
- 2) Implication of Service Tax for SEZ
- 3) Transfer Pricing-Recent International Trends
- 4) Restructuring, Mergers & Acquisitions-Tax implication

Lunch Break: 1:30 p.m. to 2:30 p.m.

Special Session 2: 2:30 p.m. to 3:30 p.m.
Meet the CEO/CFO:

Topic:

Expectations of Industry from Newly Qualified Chartered Accountant

Technical Session 2: 3:45 p.m. to 5:30 p.m.
Accounts & Audit

Topics (4 Paper writers)

- 1) Fraud Detection Techniques
- 2) Derivatives - an Accounting Perspective
- 3) AS 28 - Practical Issues
- 4) Audit Documentation & Evidence

Entertainment Program & Dinner: 07:00 p.m. to 10:30 p.m.

DAY 2

Technical Session 3: 09:00 a.m. to 10:45 a.m.

Financial Management :

Topics (4 Paper writers)

- 1) Portfolio Management Techniques
- 2) Business Financing Global Trends
- 3) Derivative Instruments Benefits & Risks
- 4) Management of Current Assets

Special Session 3: 11:00 a.m. to 1:00 p.m.

Personality Development :

Topics

- 1) Business Etiquettes
- 2) Personal Grooming

Lunch Break : 1:00 p.m. to 2:00 p.m.

Technical Session 4: 2:00 p.m. to 3:30 p.m.

Information Technology :

Topics: (4 Paper writers)

- 1) Implementation of ERP Challenges
- 2) Cyber Laws Effectiveness in India
- 3) E-Audit-A New Horizon
- 4) Excel as an audit tool

Special Session 4 : 3.45 p.m. to 4.45 p.m.

Students Debate :

Topic :

Chartered Accountancy Career Opportunities : Better in Industry or in Practice

2 Paper writers in favour of Industry and 2 Papers writers in favour of Practice

Valedictory Session : 4:45 p.m. to 5:30 p.m.

- ⇒ Students are invited to contribute papers for various technical sessions.
- ⇒ There shall be four paper presentations in each Technical Session. Joint paper writers are not allowed.
- ⇒ All Paper writers, whose papers are selected for presentation at the National Convention shall be reimbursed Registration Fees. Selected Paper Writers shall also be reimbursed railway fare by shortest possible route for AC2/First Class. Selected Paper Writers shall also be provided accommodation by the Host Branch.
- ⇒ Interested students should submit a soft copy of the paper along with hard copy for approval to reach the Director of Studies by e-mail at ccbos@icai.org & wicasa.baroda@gmail.com positively by 20th June 2009. Please provide your complete address, phone number, e-mail id and passport size photograph along with proof of registration for the conference. Please give your name on the back of photograph.
- ⇒ Students interested in participating in the cultural programme are requested to register with CA Manilal Parasiya,

Secretary, Baroda Branch of WIRC of ICAI. (M) 09825110620 before 20th June 2009.

- ⇒ Registration fees are Rs. 500 per Delegate. For accommodation, outstation students are requested to inform & register in advance.

All correspondence may be addressed to:

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Baroda Branch of WIRC of ICAI, "ICAI BHAVAN", 2-B, Ramkrishna Chambers, Alkapuri, Baroda.

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Jt. Co-ordinator & Vice-
Chairman, Board of Studies
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CA. Atul Parikh

Jt. Co-ordinator & Regional
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THREE MONTHS RESIDENTIAL PROGRAMME

General Management, Personality Development
and Communication Skills)

Three months' residential programmes on Professional Skills Development for CA students are being conducted for upgrading and honing various soft and technical skills of the students of chartered accountancy. The programme is organised with National Institute of Financial Management, Faridabad, in their premises.

Date: July 06, 2009

Duration: 12 weeks

For details see website

LEGAL DECISIONS INCOME-TAX

CA. Priya Subramanian



1. Can refund collected from the Income-tax Department by fabricating TDS certificates be treated as income and subject to tax?

CIT v. K. Thangamani (2009) 309 ITR 0015 (Mds.)

On this issue, the Madras High Court observed that the income-tax authorities are not concerned about the manner or means of acquiring income, and allowing tainted income to escape the tax net would be nothing but a premium or reward to the person for doing illegal trade. The Income-tax Act treats the income earned legally as well as illegal income alike. In the event of taxing the income of only those who acquire the same through legal manner, the tendency of those who acquire income by illegal means would increase. Therefore, even if the assessee has been prosecuted by the law enforcing authorities for commission of offence, the income earned by him would be an income liable for assessment. It would not be a defence in such cases that the State is also becoming a party to the illegal act by sharing the ill-gotten wealth. Illegality tainted with the earning has no bearing on its taxability.

Therefore, where the assessee has filed bogus TDS certificates and collected refund from the Income-tax Department, income received by the assessee by getting refund from the Income-tax Department is taxable under the residuary head Income from other sources .

3. Can exemption under section 54 available on sale of a residential house be extended to the extent of investment in two flats, if such flats were combined to make one residential unit?

CIT v. D. Ananda Basappa (2009) 309 ITR 0329 (Kar.)

The assessee-HUF sold its residential house in Mumbai and purchased two residential flats adjacent to each other (from two different persons) on the same day vide two separate registered sale deeds. The builder had certified that he had effected necessary modification to make it one residential apartment. The assessee sought exemption under section 54 in respect of the investment made in purchase of the two residential flats. The Assessing Officer, however, gave exemption under section 54 to the extent of purchase of one residential flat only contending that

- (i) Sub-section (1) of section 54 clearly restricts the benefit of exemption to purchase of one residential house only; and
- (ii) It was found by the Inspector that, before the sale, the residential flats were in occupation of two different tenants.

The order of the Assessing Officer, though confirmed by the Commissioner (Appeals), was set aside by the Tribunal holding that the assessee was entitled to exemption in respect of the amount invested in both the

flats, since they were to be treated as one single residential apartment.

The Karnataka High Court observed that the assessee had shown that the flats were situated side by side and the builder had also certified that he had effected modification of the flats to make them one unit by opening the door between the apartments. Therefore, it was immaterial that the flats were occupied by two different tenants prior to sale or that it was purchased through different sale deeds. The Court observed that these were not the grounds to hold that the assessee did not have the intention to purchase the two flats as one unit. The Court held that the assessee was entitled to exemption under section 54 in respect of purchase of both the flats to form one unit.

4. What is the tax treatment of pre-payment premium paid by the assessee-company to IDBI for restructuring its debt?

CIT v. Gujarat Guardian Ltd. (2009) 177 Taxman 434 (Del.)

The assessee-company paid pre-payment premium to IDBI during the relevant previous year for restructuring its debts and reducing the rate of interest. It claimed the full payment as business expenditure in that year on the reasoning that it was an upfront payment representing the present value of the differential rate of interest that would have been due on the loan if the restructuring of loan had not taken place. The Assessing Officer and Commissioner (Appeals) were of the view that the premium has to be amortised over 10 years, and accordingly allowed only 1/10th of the premium as deduction for the relevant previous year. The Tribunal, however, concurred with the assessee's view and held that in terms of section 36(1)(iii) read with section 2(28A), the deduction for pre-payment premium was allowable.

The issue under consideration is whether the deduction has to be allowed in one lump-sum as claimed by the assessee or should the same be deferred over a period of time as opined by the Assessing Officer and Commissioner (Appeals).

The Delhi High Court concurred with the Tribunal's view that the deduction has to be allowed to the assessee-company in one lump sum according to the provisions of section 43B(d). Section 43B(d) provides that any sum payable by the assessee as interest on any loan or borrowing from any public financial institution shall be allowed to the assessee in the year in which the same is paid, irrespective of the period or periods in which the liability to pay such sum is incurred by the assessee according to the method of accounting regularly followed by the assessee. As there was no dispute that the pre-payment premium paid represented

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interest and that it was paid to a public financial institution i.e. IDBI, the Court held that, as per the provisions of section 43B(d), the assessee's claim for deduction has to be allowed in the year in which the actual payment was made i.e. the previous year relevant to the assessment year under consideration.

Note – Section 36(1)(iii) provides for deduction of interest paid in respect of capital borrowed for the purposes of business or profession. Section 2(28A) defines interest to include, inter alia, any other charge in respect of the moneys borrowed or debt incurred. Section 43B provides for certain deductions to be allowed only on actual payment. From a combined reading of these three sections, it can be inferred that

- (i) pre-payment premium represents interest as per section 2(28A);
- (ii) such interest is deductible as business expenditure as per section 36(1)(iii);
- (iii) such interest is deductible in one lump-sum on actual payment as per section 43B(d).

5. Is depreciation under section 32 allowable in respect of emergency spares of plant and machinery, which though acquired during the previous year, have not been put to use in that year?

CIT v. Insilco Ltd. (2009) 179 Taxman 55 (Del.)

On this issue, the Delhi High Court observed that the expression used for the purposes of business appearing in section 32 also takes into account emergency spares, which, even though ready for use, yet are not consumed or used during the relevant period. This is because these spares are specific to a fixed asset, namely plant and machinery, and form an integral part of the fixed asset. These spares will, in all probability, be useless once the asset is discarded and will also have to be disposed of. In this sense, the concept of passive use which applies to standby machinery will also apply to emergency spares. Therefore, once the spares are considered as emergency spares required for plant and machinery, the assessee would be entitled to capitalize the entire cost of such spares and claim depreciation thereon.

Note – One of the conditions for claim of depreciation is that the asset must be used for the purpose of business or profession. In the past, courts have held that, in certain circumstances, an asset can be said to be in use even when it is kept ready for use. For example, depreciation can be claimed by a transport company on spare engines kept in store in case of need, though they have not actually been used by the company. Hence, in such cases, the term use embraces both active use and passive use. However, such passive use should also be for business purposes.



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DAY 1

Registration &
Breakfast : 08.00 09.00 hrs.

Inauguration : 09.00 11.00 hrs.

Technical Session I : 11.00 13.30 hrs.

Accounting & Auditing

Topics:

1. Convergence with IFRS
2. New Facet of Auditing Standards
3. Auditors Responsibility towards Fraud & Error

Lunch Break : 13.30 14.30 hrs.

Technical Session II : 14.30 17.00 hrs.

Finance & Tax

Topics:

1. Mutual Fund A Tool for wealth Management
2. TDS Recent Amendments & related Issues
3. Road Map To GST

Cultural Evening with Dinner : 18.00 21.30 hrs.

DAY 2

Breakfast : 08.00 10.00 hrs.

Technical Session III : 11.00 13.30 hrs.

Law & Economics

Topics:

1. Salient features of Limited Liability Partnership Act.
2. Corporate Governance & Independent Directors
3. Effect of Global Recession on Indian Economy

Lunch Break : 12.30 13.00 hrs.

Special Session : 13.00 14.00 hrs.

Technical Session II : 14.30 17.00 hrs.

Education & Learning

Topics:

1. New Scheme of CA Education & Training Students Perspective
2. Human Relation - Client & Staff

- Students are invited to contribute papers for various technical sessions.
- It has been decided to select two paper writers on each topic. No joint paper writer is allowed.
- Registration fee will be reimbursed to the Paper Writers whose paper is selected. They will be reimbursed the railway fare by shortest possible route for AC 3 Tier/First Class.
- Interested students should submit a soft copy of the paper along with hard copy for approval so as to reach the Director of Studies by e-mail at psdos@icai.org & nagpur@icai.org positively by June 30 2009. Please provide your complete address, phone number, e-mail id and Passport size Photograph along with proof of Registration for the Conference. Please give your name on the back of photograph.
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- Registration fee: Rs. 450 per Delegate (If Registered on or before July 10, 2009, from July 11, 2009 Registration fee would be Rs. 550 per Student. For accommodation, outstation students are requested to inform & register well in advance.)

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