

*Solved*  
**Scanner Appendix**  
**CS Professional Programme Module - I**  
**(New Syllabus)**  
**(Solution of December - 2014)**

**Paper - 2: Secretarial Audit, Compliance Management and Due Diligence**

**Chapter - 1: Secretarial Audit and Secretarial Standards - An Overview  
2014 - Dec [1] (b)**

To

The Chairman

Bright Vision Ltd.

Subject: Prerequisites for carrying out a secretarial audit

Sir,

Section 204 of the Companies Act, 2013 provides for mandatory secretarial audit for every listed company and companies belonging to other prescribed class of companies.

Such companies are required to annex a secretarial audit report with its Board's report.

As per Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the prescribed class of companies is as under:

- (a) every public company having a paid-up share capital of ₹ 50 Crores or more; or
- (b) every public company having a turnover of ₹ 250 crores or more.

Company Secretary in practice has been exclusively recognised for conducting secretarial audit. The section further provides that Secretarial Audit Report is to be submitted in a format prescribed under rules. As per sub-rule (2) of Rule 9, the format of the Secretarial Audit Report shall be in Form No. MR. 3.

Section 134 and sub-section (3) of Section 204 provides that the Board of Directors, in its report, shall explain in full any qualification or observation or other remarks made by the company secretary in practice in the secretarial audit report.

Yours' faithfully

XYZ

**2014 - Dec [1A] (Or) (i)**

**Penalty for failure to furnish information, return, etc. under the Depositories Act, 1996**

**Any person, who is required under this Act or any rules or regulations or bye-laws made thereunder:**

- (a) to furnish any information, document, books, returns or report to the Board, fails to furnish the same within the time specified therefore, he shall be liable to a penalty [which shall not be less than ₹ 1 lakh but which may extend to ₹ 1 lakh for each day during which such failure continues subject to a maximum of ₹ 1 crore] for each such failure;
- (b) to file any return or furnish any information, books or other documents within the time specified therefor in the regulations or bye-laws, fails to file return or furnish the same within the time specified therefor, he shall be liable to a penalty [which shall not be less than ₹ 1 lakh but which may extend to ₹ 1 lakh for each day during which such failure continues subject to a maximum of ₹ 1 crore];
- (c) to maintain books of account or records, fails to maintain the same, he shall be liable to a penalty [which shall not be less than ₹ 1 lakh but which may extend to ₹ 1 lakh for each day during which such failure continues subject to a maximum of ₹ 1 crore].

**2014 - Dec [1A] (Or) (ii)**

**1. Authority**

- The Articles should contain a provision for forfeiture of shares.
- Forfeiture of shares requires approval of the Board in a duly convened meeting.

## 2. Procedure

- **Non – Payment of Calls**

A forfeiture of shares held by a member should be made under the authority of the Board, if a call on the shares, together with interest accrued thereon, in accordance with the terms of issue of the shares, remains unpaid after the day appointed for payment thereof.

- **Notice**

If a member fails to pay any call, on or before the day for payment thereof, the company should during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of the call remaining unpaid, together with interest which may have accrued.

Notice should be served by the company on the defaulting member by registered post acknowledgment due.

The notice should be sent at the address registered with the company.

- **Contents of Notice**

The notice should state the amount of the call due and the interest accrued thereon.

The Notice should also specify a day not being earlier than the expiry of 21 days from the date of posting of the notice on or before which the payment required by the notice is to be made; and state that in the event of non-payment on or before the day so specified, the shares in respect of which the call was made including the amount already paid thereon will be forfeited.

If the notice is not given, the forfeiture cannot be effected.

- **Forfeiture on non - payment**

If the amount payable specified in the notice was not paid within the stipulated date, any share in respect of which the notice has been given may at any time thereafter be forfeited.

Any entitlement of the defaulting member for dividends on his partly paid up shares may be adjusted against his dues on calls.

### **3. Requirements of Forfeiture**

- The Board at a duly convened meeting should approve the forfeiture and authorize any director or manager or the secretary to make a declaration of such forfeiture.
- An authenticated list of shares to be forfeited together with the names of shareholders thereof should be placed before the Board for this purpose.
- The date of approval by the Board is the date of forfeiture.
- Upon forfeiture, any director or manager or the secretary, authorized by the Board of the company shall make a declaration specifying the particulars of shares forfeited.
- The declaration shall be conclusive evidence of forfeiture as against all persons claiming to be entitled to the shares of the company which have been forfeited.
- The Board should issue individual notices to the defaulting members whose shares have been forfeited.
- Entries in the register of members should be made with regard to forfeited shares.
- Share certificates in relation to forfeited shares shall stand cancelled upon forfeiture.
- There should be a reference to the forfeiture of shares in the report of the directors to the shareholders.
- In case of listed companies, notice of forfeiture of shares and actual forfeiture should be intimated to the stock exchange.

### **4. Annulment of forfeiture**

- The Board can annul the forfeiture by passing a resolution before the reissue of forfeited shares.
- On annulment, the name of the member should be restored in the register of members for those shares.
- In case of shares issued in physical form, fresh share certificates should be issued for those shares.
- The forfeiture can be annulled by the Board at its discretion, if the member pays all outstanding calls due on the shares together with interest.

- The member whose shares have been forfeited should be duly informed by the Board on revoking the forfeiture and restoring the name of the member on the register of members.

**5. Effect of Forfeiture**

- A person whose shares have been forfeited would cease to be a member of the company, in respect of those shares.
- A person whose shares have been forfeited would notwithstanding the forfeiture, remain liable to pay to the company all moneys, which at the date of forfeiture were payable by him to the company in respect of the shares.
- The liability of the defaulting member shall not cease till the company receives the full payment which is due in respect of shares. The name of the defaulting member will be placed as a past member on the list of contributories if a winding up of the company commences within one year of the date of forfeiture.

**6. Re-issue**

- A forfeited share may be re-issued or otherwise disposed of on such terms and in such a manner as the Board may think fit.
- Re-issue of forfeited shares is a sale of shares and it does not amount to an allotment. The company should duly record the particulars of the members who acquire those shares as if it were a transfer of shares.
- The directors would fix a price for the forfeited share that should not be lower than the amount of the call(s) due and unpaid on the share at the time of forfeiture.
- In the case of a company whose shares are listed in a recognized stock exchange, re-issue of forfeited shares shall be as per Guidelines for Preferential Issue of the Securities and Exchange Board of India and the listing agreement.
- **Effect of Re-issue**
  - On re-issue the transferee should be registered as the holder of the share.
  - A new share certificate should be issued in the name of the transferee who shall be registered as the holder of the shares.

- The title of the transferee should not be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share.

**2014 - Dec [1A] (Or) (iii)**

**Delisting of Securities**

**21A**

- (1) A recognised stock exchange may delist the securities, after recording the reasons therefore, from any recognised stock exchange on any of the ground or grounds as may be prescribed under this Act :  
Provided that the securities of a company shall not be delisted unless the company concerned has been given a reasonable opportunity of being heard.
- (2) A listed company or an aggrieved investor may file an appeal before the Securities Appellate Tribunal against the decision of the recognised stock exchange delisting the securities within 15 days from the date of the decision of the recognised stock exchange delisting the securities and the provisions of Sections 22B to 22E of this Act, shall apply, as far as may be, to such appeals:  
Provided that the Securities Appellate Tribunal may, if it is satisfied that the company was prevented by sufficient cause from filing the appeal within the said period, allow it to be filed within a further period not exceeding one month.

**2014 - Dec [1A] (Or) (iv)**

**Appeal to Securities Appellate Tribunal**

**23A**

- (1) Save as provided in sub-section (2), any person aggrieved by an order of the Board made, on and after the commencement of the Securities Laws (Second Amendment) Act, 1999, under this Act, or the regulations made thereunder, [or by an order made by an adjudicating officer under this Act] may prefer an appeal to a Securities Appellate Tribunal having jurisdiction in the matter.

- (2) Every appeal under sub-section (1) shall be filed within a period of 45 days from the date on which a copy of the order made by the Board is received by the person referred to in sub-section (1) and it shall be in such form and be accompanied by such fee as may be prescribed : Provided that the Securities Appellate Tribunal may entertain an appeal after the expiry of the said period of 45 days if it is satisfied that there was sufficient cause for not filing it within that period.
- (3) On receipt of an appeal under sub-section (1), the Securities Appellate Tribunal may, after giving the parties to the appeal an opportunity of being heard, pass such orders thereon as it thinks fit, confirming, modifying or setting aside the order appealed against.
- (4) The Securities Appellate Tribunal shall send a copy of every order made by it to the Board and parties to the appeal.
- (5) The appeal filed before the Securities Appellate Tribunal under sub-section (1) shall be dealt with by it as expeditiously as possible and endeavour shall be made by it to dispose of the appeal finally within 6 months from the date of receipt of the appeal.

**2014 - Dec [1A] (Or) (v)**

**Procedure for issuing Secretarial Standards**

**The following procedure shall be adopted for formulating and issuing Secretarial Standards:**

1. SSB, in consultation with the Council, shall determine the areas in which Secretarial Standards need to be formulated and the priority in regard to the selection thereof.
2. In the preparation of Secretarial Standards, SSB may constitute Working Groups to formulate preliminary drafts of the proposed Standards.
3. The preliminary draft of the Secretarial Standard prepared by the Working Group shall be circulated amongst the members of SSB for discussion and shall be modified appropriately, if so required.
4. The preliminary draft will then be circulated to the members of the Central Council as well as to Chairmen of Regional Councils/Chapters of ICSI, various professional bodies, Chambers of Commerce, regulatory authorities such as the Ministry of Corporate Affairs, the Department of

Economic Affairs, the Securities and Exchange Board of India, Reserve Bank of India, Department of Public Enterprises and to such other bodies/organisations as may be decided by SSB, for ascertaining their views, specifying a time-frame within which such views, comments and suggestions are to be received.

5. On the basis of the preliminary draft and the discussion with the bodies/organisations referred to in 4 above, an Exposure Draft will be prepared and published in the "Chartered Secretary", the journal of ICSI and also put on the Website of ICSI to elicit comments from members and the public at large.
6. The draft of the proposed Secretarial Standard will generally include the following basic points:
  - (a) Concepts and fundamental principles relating to the subject of the Standard;
  - (b) Definitions and explanations of terms used in the Standard;
  - (c) Objectives of issuing the Standard;
  - (d) Disclosure requirements; and
  - (e) Date from which the Standard will be effective.
7. After taking into consideration the comments received, the draft of the proposed Secretarial Standard will be finalised by SSB and submitted to the Council of ICSI.
8. The Council will consider the final draft of the proposed Secretarial Standard and finalise the same in consultation with SSB. The Secretarial Standard on the relevant subject will then be issued under the authority of the Council.

## **Chapter - 2: Checklist-Secretarial Audit**

**2014 - Dec [1]** (a), (c), (d), (e)

- (a) As per Rule 25 (1) (d) (ii) of Companies (Management and Administration) Rules, 2014, in the case of minutes of proceedings of a general meeting, each page of every such book shall be initialled or signed and the last page of the record of proceedings of each meeting or each report in such books shall be dated and signed by the chairman



of the same meeting within the aforesaid period of 30 days or in the event of the death or inability of that chairman within that period, by a director duly authorised by the Board for the purpose.

Hence, Company Secretary cannot act on the letter of authority. The Chairman shall authorized any director to sign the minutes on his behalf.

- (c) (i) A person going abroad for employment can draw foreign exchange up to USD 1,00,000 from any Authorised Dealer in India on the basis of self-declaration.
- (ii) For business trips abroad to countries, other than to Nepal and Bhutan, a person can avail of foreign exchange up to USD 25,000 per visit. Visits in connection with attending of an international conference, seminar, specialised training, study tour, apprentice training, etc., are treated as business visits. Release of foreign exchange exceeding USD 25,000 for business travel abroad (other than to Nepal and Bhutan), irrespective of the period of stay, requires prior permission from the Reserve Bank.
- (d) As per Section 22 of the Companies Act, 2013, a bill of exchange, hundi or promissory note shall be deemed to have been made, accepted, drawn or endorsed on behalf of a company if made, accepted, drawn or endorsed in the name of or on behalf of or on account of the company by any person acting under its authority, express or implied.  
Hence, the company can refused to accept the liability.

**(e) Deposits**

**Check whether**

1. The Company has not accepted any deposits which is repayable on demand or upon receiving a notice within a period of less than 6 months or more than 36 months from the date of acceptance or renewal of deposit. If, accepted so, the company has complied with the conditions prescribed in Rule 3.
2. The company has issued circular to all its members by registered post acknowledgment due or speed post or by electronic mode in Form DPT-1, while intending to invite deposits from them.

3. The company, being an eligible Company as defined under the Rules, has issued circular in the form of advertisement in Form DPT-1.
4. Whether the company filed Return of deposits with the Registrar in Form DPT-3.
5. The company (accepting deposits from members or eligible companies) has entered into a contract for providing deposit insurance as prescribed in Rule 3.
6. The company has provided for security by way of charge as prescribed in Rule 6.
7. The company has executed deposit trust deed in Form DPT-2 at least 7 days before circular or advertisement.

### **Chapter - 3: Due Diligence - An Overview**

#### **2014 - Dec [4] (a)**

**Cost:** Manufacturing industry must keep their price of product reasonable and cheap in comparison to its competitors. They must avoid applying costly raw material, labours, old technologies. Industries must be established where there are the facilities of electricity, transportation, availability of raw material and market for sale should be very smooth.

**Revenue:** If the taxes like excise and local taxes are less applied on the products manufactured then it may be make industry healthier in comparison to others.

In this case industry must choose to manufacture such products which are prioritised by Govt. and also subsidy and tax holiday will be provided.

In applying such type of cures, industry may check cost and revenue on their manufactured products.

#### **2014 - Dec [5] (a) (iii), (b) (ii)**

##### **(iii) Technical due diligence**

Technical due diligence covers:

- (a) intellectual property due diligence; and
- (b) technology due diligence.

(b)(ii)

**Audit and Due Diligence**

<b>Audit</b>	<b>Due diligence</b>
Limited to financial analysis	Includes not only analysis of financial statements, but also business plan, sustainability of business, future aspects, corporate and managements structure, legal issues etc.
Based on historical data	Covers future growth prospects in addition to historical data.
Mandatory	Mandatory based on the transaction.
Positive assurance i.e. true and fairness of the financial statements	Negative assurance i.e. identification of risks if any.
Post mortem analysis	It is required for future decision.
Always uniform	Varies according to the nature of transaction.
Recurring event	Occasional event.

**Chapter - 4: Issue of Securities****2014 - Dec [2] (a)**

If the equity shares of the issuer have been listed on a recognised stock exchange for a period of less than 26 weeks as on the relevant date, the equity shares shall be allotted at a price not less than the higher of the following:

- (a) the price at which equity shares were issued by the issuer in its initial public offer or the value per share arrived at in a scheme of arrangement under sections 391 to 394 of the Companies Act, 1956\*, pursuant to which the equity shares of the issuer were listed, as the case may be; or
- (b) the average of the weekly high and low of the closing prices of the related equity shares quoted on the recognised stock exchange during the period shares have been listed preceding the relevant date; or
- (c) the average of the weekly high and low of the closing prices of the related equity shares quoted on a recognised stock exchange during the 2 weeks preceding the relevant date.

This price shall be recomputed by the issuer on completion of 26 weeks from the date of listing on a recognised stock exchange with reference to the average of the weekly high and low of the closing prices of the related equity shares quoted on the recognised stock exchange during these 26 weeks and if such recomputed price is higher than the price paid on allotment, the difference shall be paid by the allottees to the issuer.

**Note:** \*Section 391 to 394 of the Companies Act, 1956 corresponding to Section 230 to 232, is yet to be notified.

**2014 - Dec [2A] (Or) (ii)**

**Non-Transferability of Option**

- (i) Check that option granted to an employee is not transferable to any person.
- (ii) (a) No person other than the employee to whom the option is granted shall be entitled to exercise the option.  
(b) Under the cash less system of exercise, the company may itself fund or permit the empanelled stock brokers to fund the payment of exercise price which shall be adjusted against the sale proceeds of some or all the shares.
- (iii) Check that the option granted to the employee is not pledged, hypothecated, mortgaged or otherwise alienated in any other manner.
- (iv) Check that in the event of the death of employee while in employment, all the options granted to him till such date are vested in the legal heirs or nominees of the deceased employee.
- (v) Check that in case the employee suffers a permanent incapacity while in employment, all the option granted to him as on the date of permanent incapacitation, shall vest in him on that day.
- (vi) Check that if an employee resigns or is terminated, all options not vested as on that day expire.

However, the employee shall, subject to the terms and conditions formulated by compensation committee, be entitled to retain all the vested options.

- (vii) Check that, the options granted to a director, who is an employee of an institution and has been nominated by the said institution, has not been renounced in favour of institution nominating him.

**2014 - Dec [6] (b)**

**Five common restrictions for issuers in case of public and rights issues**

No issuer shall make a public issue or rights issue of specified securities:

- (a) if the issuer, any of its promoters, promoter group or directors or persons in control of the issuer are debarred from accessing the capital market by the Board;
- (b) if any of the promoters, directors or persons in control of the issuer was or also is a promoter, director or person in control of any other company which is debarred from accessing the capital market under any order or directions made by the Board;
- (c) if the issuer of convertible debt instruments is in the list of wilful defaulters published by the Reserve Bank of India or it is in default of payment of interest or repayment of principal amount in respect of debt instruments issued by it to the public, if any, for a period of more than 6 months;
- (d) unless it has made an application to one or more recognised stock exchanges for listing of specified securities on such stock exchanges and has chosen one of them as the designated stock exchange:  
Provided that in case of an initial public offer, the issuer shall make an application for listing of the specified securities in at least one recognised stock exchange having nationwide trading terminals;
- (e) unless it has entered into an agreement with a depository for dematerialisation of specified securities already issued or proposed to be issued.

**Chapter - 5: Depository Receipts Due Diligence**

**2014 - Dec [2] (b)**

**Process involved in the issue of GDRs**

**Following are the broad steps involved in GDR issue:**

1. Indian company would issue rupee denominated shares to a Depository outside India, where the GDRs are proposed to be issued.

2. Indian custodian would keep these securities in his custody.
3. The investment banker would organize road shows for marketing the issue.
4. The Foreign Depository would issue dollar denominated GDRs to foreign investors.
5. Listing of GDRs in American and European Stock Exchanges would take place.
6. Indian company has to comply with various requirements of EU directives and SEC requirements.

**2014 - Dec [5] (b) (i)**

**Level I ADR (unlisted, OTC traded/Pink Sheets)**

This is the least expensive level to provide for issuance of shares in ADR form in the US. The company issuing ADRs has to comply with the SEC registration requirements but can be exempted from full SEC reporting requirements under certain circumstances. It can only be traded over the counter and cannot be listed on a national exchange in the US. The electronic OTC markets are also called pink sheets which is a centralized quotation service that collects and publishes market maker quotes for OTC securities in real time.

**Level II ADRs (US Listed, Non-capital Raising Transaction (i.e. without going for public issue)**

This programme gives more liquidity and marketability as it enables listing of ADRs in one or more of the US exchanges. Under this programme the company has to comply with the registration requirements, reporting requirements of SEC.

**Chapter - 6: Due Diligence - Mergers & Amalgamations**

**2014 - Dec [2A] (Or) (i) (a), (b)**

- (a) Acquisition of 25% or more shares or voting rights:** An acquirer, who (alongwith PACs, if any) holds less than 25% shares or voting rights in a target company and agrees to acquire shares or acquires shares which alongwith his/ PACs existing shareholding would entitle him to

exercise 25% or more shares or voting rights in a target company, will need to make an open offer before acquiring such additional shares. Hence, in the given case offer will get triggered.

- (b) Acquisition of more than 5% shares or voting rights in a financial year:** An acquirer who (alongwith PACs, if any) holds 25% or more but less than the maximum permissible non-public shareholding in a target company, can acquire additional shares in the target company as would entitle him to exercise more than 5% of the voting rights in any financial year ending March 31, only after making an open offer. Hence, in the given case offer will get triggered.

**2014 - Dec [3]** (a), (b)

- (a)** The successful merger demands that strategic planners are sensitive to the human issues of the organisations. For the purpose, following checks have to be made constantly to ensure that:
1. sensitive areas of the company are pinpointed and personnel in these sections carefully monitored;
  2. serious efforts are made to retain key people;
  3. a replacement policy is ready to cope with inevitable personnel loss;
  4. records are kept of everyone who leaves, when, why and to where;
  5. employees are informed of what is going on, even bad news is systematically delivered. Uncertainty is more dangerous than the clear, logical presentation of unpleasant facts;
  6. training department is fully geared to provide short, medium and long term training strategy for both production and managerial staff;
  7. likely union reaction be assessed in advance;
  8. estimate cost of redundancy payments, early pensions and the like assets;
  9. comprehensive policies and procedures be maintained up for employee related issues such as office procedures, new reporting, compensation, recruitment and selection, performance, termination, disciplinary action etc.;

10. new policies to be clearly communicated to the employees specially employees at the level of managers, supervisors and line manager to be briefed about the new responsibilities of those reporting to them;
11. family gatherings and picnics be organised for the employees and their families of merging companies during the transition period to allow them to get off their inhibitions and breed familiarity.

**(b) Questions being analysed in Cultural Due Diligence**

The following questions are being analysed for determining the different corporate culture:

1. What are the primary issues driving the business strategy?
2. What are the levels of relationship with the board and the senior management?
3. What is the nature of the relationship between groups and units in the organization?
4. What formal and informal systems are in place and what part do they play in the daily life of doing the work?
5. How do people dress and address each other?
6. How do the office ambience differ?
7. What are the working hours?
8. What are the variation in utilization of technology in daily routine?
9. How actual work is performed?
10. How authority and responsibility is allocated?
11. How the performance evaluation is done and reward is granted?
12. What are the reporting relationships in the organization?
13. What are the supervisory practices in the organization?

**The above questions indicate that the corporate culture is basically focused on:**

1. Leadership style and management practices.
2. Manner of organizational functioning.
3. Employees.



**2014 - Dec [4] (b)**

The acquirer has to undertake a study on the target company, before taking any action for taking over a company. He may consider the following points. It may be noted that this list is not an exhaustive checklist and it varies depends on size of the company and nature of industry:

- (a) Information has to be collected on Target Company and to be analysed on financial and legal angle.
- (b) Register of members to be examined to verify the profile of the shareholders.
- (c) Title of the target company with respect to immovable properties may be verified.
- (d) Financial statements of Target Company have to be examined.
- (e) Examination of Articles and Memorandum of Association of the Company.
- (f) Examination of charges created by the Company.
- (g) Applicability of FEMA provisions if any relating to FDI has to be looked into.
- (h) Import and Export of technology if any.
- (i) Business prospects etc.

**Chapter - 7: Competition Law Due Diligence**

**2014 - Dec [3] (c)**

**The factors that determine dominant position of an enterprise in the market are:**

1. Market Share of the Enterprise
2. Size and Resources of the Enterprise
3. Size and Importance of Competitors
4. Economic Power of the Enterprise Including Commercial Advantage over Competitors
5. Vertical Integration of the Enterprises or Sales or Service Network of Such Enterprise
6. Dependence of the Consumers on the Enterprise
7. Market Structure and Size of Marke.

**2014 - Dec [5] (a) (i)**

**(i) Bid Rigging (Section 3(3)(d))**

An agreement, between enterprises or persons engaged in identical or similar production or trading of goods or provision of services, which has the effect of eliminating or reducing competition for bids or adversely affecting or manipulating the process for bidding. Bid rigging is a particular form of collusive price-fixing behaviour by which firms co-ordinate their bids.

**2014 - Dec [6] (a)**

The word 'agreement' used in Section 3(3) has been defined in Section 2(b). The definition is inclusive and *inter-alia* includes any arrangement, understanding or action in concert irrespective of whether it is written/formal or otherwise or intended to be legally enforceable. Thus, there is no need for an explicit agreement. The same can be inferred from the intention or conduct of the parties.

Hence, in the given case, understanding can be considered as an "agreement" within the meaning of Section 2(b) of the Competition Act, 2002.

**Chapter - 9: Due Diligence for Banks**

**2014 - Dec [2A] (Or) (iii)**

**As per RBI vide its Circular No. RBI/2008-2009-313/DBOD No. B.P. BC 94/08.12.001/2008-2009 dated 8<sup>th</sup> December, 2008 advised the banks which are given below:**

- 1 The formats for declaration of information by the borrower at the time of applying for a credit facility to a bank (Annex I) and the format for exchange of information among the banks in respect of borrowers enjoying credit facilities from more than one bank (Annex II), enclosed to the aforesaid circular have been revised to reflect information relating to the derivatives transactions entered into by banks with the borrowers and the unhedged foreign currency exposures of the borrowers.
2. Banks are advised to use the revised formats with immediate effect.

**2014 - Dec [6] (c)**

**Compliance Inputs:**

- Original insurance policies
- Register of Assets
- Collateral Security offered to the lenders
- Stock Statement
- Premium payment receipts

**Checklist for Insurance Policies**

- (a) Verify the original insurance Policies and check carefully the details of assets covered by the policy.
- (b) Check that the Company has taken a Policy from a General Insurance Co. registered with IRDA.
- (c) Check the period of the policy. Policies are generally issued for a period of one year. Sometimes, short period policies for less than one year are also issued.
- (d) Generally, Fire Insurance policies cover immovable properties, stocks etc. Earthquake, Terrorism etc. are given as add on covers. Vehicles should have Valid Comprehensive Insurance Policies.
- (e) Check that the sum insured represents the Market Value/Replacement Value as the case may be (not book value) or else, under insurance will be applicable. Name, address, situation (with Building No. etc.) of the Company should tally with the records.
- (f) Verify the name of the mortgagee.
- (g) Verify any endorsement during the policy period, noting the changes in the sum insured, situation, risk etc.

**Chapter - 10: Environmental Due Diligence**

**2014 - Dec [2] (c)**

**Potential issues may be:**

1. Regulatory non-compliance
2. Health hazard due to the operations to local community
3. Location of industry near agricultural land
4. Amount of noise
5. Impact of effluents on the rivers etc.

6. Lack of disaster planning
7. Inadequate safety systems.
8. Lack of sustainability initiatives
9. Lack of occupational or safety measures
10. Improper waster disposal systems.

### **Chapter - 12: Compliance Management**

**2014 - Dec [5] (a) (ii)**

**(ii) Risk of non-compliance**

The risks of non-compliance of the law are many:

1. Cessation of business activities
2. Civil action by the authorities
3. Punitive action resulting in fines against the company/officials
4. Imprisonment of the errant officials
5. Public embarrassment
6. Damage to the reputation of the company and its employees
7. Attachment of bank accounts.

**Shuchita Prakashan (P) Ltd.**  
25/19, L.I.C. Colony, Tagore Town,  
Allahabad - 211002  
*Visit us: [www.shuchita.com](http://www.shuchita.com)*









