GUIDELINES TO STUDENTS

1. **Students are advised to consult Study Notes and Text Books supplemented by the Suggested Answers.**
2. **Working Notes should be a part of Answers, particularly in Capital Market Analysis & Corporate laws, Financial Management and International Finance.**
4. **Assumptions should be logical and clearly stated in the Answers.**

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FINAL EXAMINATION (SYLLABUS - 2008)

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FINAL EXAMINATION - GROUP III
(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

JUNE 2009

PAPER P11 : CAPITAL MARKET ANALYSIS & CORPORATE LAWS

Section I

CAPITAL MARKET ANALYSIS

Answer Question No. 1 which is *compulsory* and any two from the rest in this section.

Time Allowed : 3 Hours

Full Marks : 100

Question:

1.(a) In each of the cases given below one out of four is correct. Indicate the correct answer (= 1 mark) and give your workings/reasons briefly (= 1 mark):

(i) ASHEEKA LTD. has an excess cash of Rs. 8,00,000 which it wants to invest in short-term marketable securities. Expenses relating to investment will be Rs. 20,000. If the securities invested will have an annual yield of 9%, what would be the period of investment so as to earn a pre-tax income of 5%? (Ignore time value).

A. 6.5 months

B. 9.75 months

C. 10 months

D. None of (A), (B), (C)

(ii) The stock of SUVALAXMI LTD. (FV Rs.10) quotes Rs. 520 on NSE and the 3 months future price quotes at Rs.532. The borrowing rate is given as 15% p.a. What would be the theoretical price of 3 month Suvalaxmi Future if the expected annual dividend yield is 25% p.a. payable before expiry?

A. Rs. 540.00

B. Rs. 539.00

C. Rs. 537.00

D. Insufficient data

(iii) MR. KUMAR is a fund manager of an equity fund which is expected to provide risk premium of 10% and standard deviation of returns of 16%. MISS AKRITA, a client of Mr. Kumar choose to invest Rs. 70,000 in equity fund and Rs. 30,000 in T-Bills. If T-Bills are trading at 7% p.a., the expected return and standard deviation of return on the portfolio of Miss Akrita will be

A. 12% and 10%

B. 14% and 11.20%

C. 14.5% and 11.26%

D. None of (A), (B) and (C)

(iv) The NAV of each unit of a closed-end fund at the beginning of the year was Rs. 15. By the year end, its NAV equals Rs. 15.40. At the beginning of the year, each unit was selling at a 3% Premium to NAV. By the end of the year, each unit is selling at a 5% discount to NAV. The fund paid year end distribution of Income and Capital gains of Rs. 2.40 on each unit. The rate to return to the investor in the fund during the year is

A. 9.861%

B. 10.226%

C. 11.512%

D. 11.916%

(v) SOFTEX LTD. has both European call and put options traded on NSE. Both options have an expiration date 6 months and exercise price of Rs. 30. The call and put are currently selling for Rs. 10 and Rs. 4 respectively. If the risk free rate of interest is 6% p.a., what would be the stock price of Softex Ltd.? [Given PVIF (6%, 0.5 yrs) = 0.9709]

A. Rs. 35.13

B. Rs. 40.87

C. Rs. 45.50

D. Incomplete Information 2 × 5

(b) Choose the most appropriate one from the stated options and write down. (Only Indicate A, B, C, D as you think correct):

(i) A process of investment by a sponsor or a syndicate of investors/sponsors directly in a company is referred as

A. Bought out deal

B. Buy Back of shares

C. Irredeemable preference shares

D. Deferred shares

(ii) A broker has bought 10000 ABC shares at Rs. 200 and sold 8000 shares at Rs. 190 on the same day. The margin he has to pay is

A. Gross exposure margin

B. Special margin

C. Mark to market margin

D. Concentration ratio margin

(iii) According to SEBI guidelines

A. All the new issues should be in the depository mode

B. All the "A" group shares should be traded through NSDL

C. All the "B" group shares should be traded through NSDL

D. All the above are true

(iv) The members of SEBI are appointed by

A. Chairman of SEBI

B. The chairman of the Stock exchanges

C. Central Government

D. Reserve Bank of India

(v) An investor owing a stock wants to retain the upside potential of the stock. At the same time he wants to limit his loss if the stock price falls. What should he do?

A. Buy a put option

B. Buy a call option

C. Buy a call option and buy a put option

D. Sell a call option and buy a put option 1 × 5

(c) Fill up the blanks with appropriate answers:

(i) The Cyber law of India is contained in __________ Act __________. ½+½

(ii) In the case of a new ULIP, IRDA has permitted partial withdrawal by a client only after __________ years. 1

(iii) Every recognized stock Exchange is required to finish to __________ with a copy of the Annual report with prescribed particulars as per the requirements of the Securities Contracts (Regulation) Act, 1956. 1

(iv) The Information Technology Act, 2000 has legalized the __________ and gives it the status of being valid form of carrying out __________ in India. ½+½

(v) SBTS stands for __________. 1

Answer to Question No 1(a):

(i) → C: 10 months: Pre-tax Income required as investment of Rs. 800000

= Rs. 800000 × 0.05 = Rs. 40000.

Let the period of investment be: P.

\ (800000×0.09×P/12)-20000 = 40000

or, 0.06 P = Rs. 60000 => P = 60000 ÷ 0.06 = 10

∴ 10 months.

(ii) → C: Rs. 537.00.

Theoretical Price of 3 month Suvalaxmi Futures:

Spot + Cost of Carry – Dividend.

= 520 + 520 × 0.15 × 0.25 - 2.50 (25% of FV Rs.10)

= 520 + 19.50 – 2.50 = Rs. 537.

(iii) ➔ B: 14% and 11.20%

Expected return on Equity fund = 7.00 + 10.00 = 17%

Expected return on Portfolio of Miss Akrita:

0.70 × 17 + 0.30 × 7 = 14%

Expected Standard deviation of the return on Port folio = 0.70×0.16 + 0.30 ×0

= 11.20%

(iv) ➔ B: 10.226%

The price of unit at the beginning of the year:

15 × 1.03 = Rs. 15.45

The price of unit at the end of the year: Rs. 15.40 × 0.95 = 14.63

The price of the fund fell by: (14.63-15.45) = -0.82

Rate of return = (2.40-0.82) ÷ 15.45 = 10.226%

(v) ➔ A: Rs: 35.13.

According to Call-Put parity

$C_0 = P_0 + S_0 - PV(E)$ Where C = 10, P = 4,

$10 = 4 + S_0 - 30 \times 0.9709$ PV(E) = PV of Exercise Price.

$\therefore$ So = 10 – 4+ 29.127

= 35.127 i.e. Rs. 35.13.

Answer to Question No 1(b):

(i)➔ A. (ii)➔ C. (iii)➔ A. (iv)➔ C. (v)➔ A.

Answer to Question No 1(c):

(i) Information Technology, 2000.
(ii) Three Policy.
(iii) SEBI
(iv) e-mail, Communication.
(v) Screen Based Trading System.

Question:

2.(a) Who is a Depository Participant (DP)? Name some benefits enjoyed by an investor when he buys/sells in the depository mode. 2+5

(b) The stock research division of VCK INVESTMENT LTD. (VCKISL) has developed ex-ante probability distribution for the likely economic scenarios over the next one-year and estimates the corresponding one period rates of return on Stock A, Stock B and Market index as follows:

Economic Scenario	Probability	One period rate of return (%)		
		Stock A	Stock B	Market
Recession	0.15	-15	-3	-10
Low growth	0.25	10	7	13
Medium growth	0.45	25	15	18
High growth	0.15	40	25	32

The expected risk-free real rate of return and the premium for inflation are 3% and 6.5% per annum respectively.

You, as an ANALYST of VCK Investment Service Ltd. are required to:

(a) Calculate the following for Stock A and B:
(i) Expected return
(ii) Covariance of returns with the market returns.
(iii) Beta (â)

(b) Recommend for fresh Investment in any of these two stocks.

——— Show all the necessary calculations. 3+6+4

Answer to Question No 2(a):

Depository Participant

DP is an agent of the depository and is authorized to offer depository service to investors.

According to SEBI guidelines, financial institutions, banks, custodians, stock brokers, etc. can become Depository Particulars in a depository. An investor can open his securities account through a DP and start dematerializing his securities into his account and / or start trading in the electronic mode. The balances in investor's account are maintained with the depository and are available through the DP. The DP will intimate the investor, the status of his holding or transaction from time to time.

Benefits of DP

As an investor, one will enjoy many benefits if he buys and sells in the depository mode.

Some of the benefits are:-

- No bad deliveries
- Reduced Paper work
- No risk of loss, mutilation or theft of share certificates.
- Faster settlement
- No stamp duty for transfer of shares
- Low transaction cost of buying and selling in the dematerialized segment
- Low interest rates on loans granted against pledge of dematerialized securities by banks
- Low margin on securities pledged with banks
- Pay-in and pay-out securities on the same day
- Increase in the liquidity of the investor's securities because of faster transfer and registration of securities in his account.

- Instant disbursement of non-cash corporate action benefits like bonus and rights into the investor's account.
- Regular account status updates available from the DP at any point of time.

Answer to Question No 2(b):

VCK INVESTMENT SERVICES LTD.

(a)(i) Expected return on stock A[$E(R_A)$], Stock B [$E(R_B)$] and Market [$E(R_M)$]:

$E(R_A) = \Sigma R_S P_S$

$= 0.15(-15) + 0.25 \times 10 + 0.45 \times 25 + 0.15 \times 40 = 17.5\%$

$E(R_B) = 0.15 \times (-3) + 0.25 \times 7 + 0.45 \times 15 + 0.15 \times 25$

$= 11.8\%$

$E(R_M) = 0.15 \times (-10) + 0.25 \times 13 + 0.45 \times 18 + 0.15 \times 32$

$= 14.65\%$

(ii) Co variances:

$COV_{AM} = \Sigma [R_{As} - E(R_A)] [R_{Ms} - E(R_M)] P_S$

$= 0.15 [(15) - 17.5] [(10) - 14.65] + 0.25 [10 - 17.5] [13 - 14.65] + 0.45 [25 - 17.5] [18 - 14.65] + 0.15 [40 - 17.5] [32 - 14.65]$

$= 193.13 (\%)^2$

$COV_{BM} = 0.15 [(-3) - 11.8] [(-10) - 14.65] + 0.25 [7 - 11.8] [13 - 14.65] + 0.45 [15 - 11.8] [18 - 14.65] + 0.15 [25 - 11.8] [32 - 14.65]$

$= 95.88 (\%)^2$

$VAR_M (\delta^2_M) = 0.15 [(-10) - 14.65]^2 + 0.25 [13 - 14.65]^2 + 0.45 [18 - 14.65]^2 + 0.15 [32 - 14.65]^2$

$= 142.03(\%)^2$

(iii) $\beta_A = [COV_{AM} / \sigma^2_M] = (193.13/142.03) = 1.36$

$\beta B = [COV_{BM} / \sigma^2_M] = 95.88/ 142.03 = 0.675 \approx 0.68$

(b) For *ex ante* SML $R(r_i) = r_0 + r_1 \beta_{im}$

Where, r_0 = Intercept of SML

r_1 = Slope of the SML

If the assumptions at the CAPM are correct, then

$R(r_i) = r_f + [E(r_m) - r_f] \beta_m$

Where, r_f = risk free rate.

$E(r_m) - r_f$ = Slope of SML

Given $r_f = 3.0 + 6.5 = 9.5\%$

Where, r_f = Inflation adjusted nominal risk free rate

(i) $R(r_A) = 9.5 + 1.36 \times [14.65 - 9.5]$

$= 16.50\%$

$\sigma_A = E(R_A) - R(r_A)$

$= 17.50 - 16.50 = 1.0\%$

Hence, A is underpriced.

(ii) $R(r_B) = 9.5 + 0.675 \times [14.65 - 9.5]$

$= 12.98\%$

$\sigma_B = E(R_B) - R(r_B)$

$= 11.80 - 12.98 = -1.18\%$

Hence, B is overpriced.

Therefore, it is recommended to invest in stock A.

Question:

3.(a) When does a market-wise circuit breaker system apply: 6

(b) The following quotes are available for 3 months options in respect of a share currently traded at Rs. 31.

Strike price	Rs. 30.00
Call option	Rs. 3.00
Put option	Rs. 2.00

An investor devises a strategy of buying a call and selling the share and a put option.

(i) What is his profit/loss profile if it is given that the rate of interest is 10% per annum?

(ii) What would the position if the strategy adopted is selling a call option and buying the share and a put option? [Given PVIF (10% 0.25 years) = 0.9756] 4+3

(c) Consider the data given below:

BSE Index	5000
Value of portfolio	Rs. 5,05,000
Risk free interest rate	9% per annum
Dividend yield on Index	6% per annum
Beta of Portfolio	1.5

We assume that a futures contract on the BSE index with four months maturity is used to hedge the value of portfolio over next three months. One future contract is for delivery of 50 times the index.

Based on the above information calculate:

(i) Price of future contract

(ii) The gain on short futures position if the index turns out to be 4500 in three months. 3+4

Answer to Question No 3(a):

Market-wide circuit breaker system:

The index-based marker-wide circuit breakers were implemented in compulsory rolling settlement with effect from July 02, 2001.

The index-based market-wide circuit breaker system applies at 3 stages of the index movement, either way viz. at 10%, 15% and 20%.

These circuit breakers when triggered, bring about a coordinated trading halt in all equity and equity derivative markets nationwide.

The market-wide circuit breakers are trigged by movement of either the BSE Sensex or the NSE S&P CNX Nifty, whichever is breached earlier.

The percentage movement of the index and the time-frame of the trading halt is given below:

- 10% movement – a one-hour market half if the movement takes place before 1:00 p.m.
  - at or after 1:00 p.m. but before 2:30 p.m., a trading halt for ½ hour.
  - at or after 2:30 p.m. there will be no trading halt and market shall continue trading.
- 15% movement – a two-hour halt if the movement takes place before 1 p.m.
  - on or after 1:00 p.m., but before 2:00 p.m., a trading halt of one hour
  - on or after 2:00 p.m. the trading shall halt for remainder of the day.
- 20% movement – trading shall be halted for the remainder of the day.

Answer to Question No 3(b):

According to Put-Call parity, S + P = C +PV(E)

Substituting the given data we can say that:

LHS = 31 + 2 =Rs. 33, RHS = 3 + 30 x 0.975 = Rs. 32.27.

Since LHS "' RHS, we have an arbitrage opportunity, as we can see a difference of Rs. 0.73.

(i) Strategy of buying a call and selling the share and a put option

C – S – P = -PV(E) or, [C-S-P] + [PV(E)] = 0

Arbitrage Profits per Share			
Position	**Immediate Cash Flow**	**Pay off in 3 months**	
		St d" 30	**St > 30**
Short Stock	+31.00	- St	-St
Deposit PV(30) = 29.27	-29.27	30	30
Buy Call	-3.00	0	St – 30
Sell Put	+2.00	-(30 - St)	0
TOTAL	RS. 0.73 per share	0	0

(St = Stock Price at expiration)

This strategy would be adopted, since the initial pay off is positive.

(ii) Strategy of selling a call and buying the share and a put option:

From put call private equation it is equivalent to – C + S + P = PV(E)

Arbitrage Profits per Share			
Position	**Immediate Cash Flow**	**Pay off in 3 months**	
		St d" 30	**St > 30**
Buy Stock	-31.00	St	St
Borrow PV(30) = 29.27	29.27	-30	-30
Sell Call	+3.00	0	-(St – 30)
Buy Put	-2.00	30 - St	0
TOTAL	= - Rs. 0.73 per share	0	0

This strategy would not be adopted, since the initial Payoff is negative.

Answer to Question No 3(c):

(i) Current future price of index:

5000 + 5000(0.09 – 0.06) x 4/12 = 5000 + 50 = 5050

Price of future Contract = Rs. 50 x 5050 = Rs. 252500

(ii) Hedge Ratio = (505000/252500) x 1.5 = 3 Contracts.

Index after three months turns out to be 4500.

Future Price will be = 4500 + 4500(0.09 – 0.06) x $^1/_3$ = 4545

Thus, Gain from the Short futures Position is

= 3 x (5050 - 4545) x 50

= Rs. 75750

Question:

4.(a) Explain the term 'Beta' as a measure of the systematic risk of a security. 7

(b) MRS. ANUPAMA on 1.7.2006, during the initial offer of SUN MUTUAL FUND invested in 10000 units having face value of Rs. 10 for each unit. On 31.3.2007 the dividend operated by the Sun Mutual Fund was 10% and Mrs. Anupama found that her annualized yield was 153.33%. On 31.12.2008, 20% dividend was given. On 31.3.2009 Mrs Anupama redeemed all her balance of 11296.11 units when her annualized yield was 73.52%. (Assume the dividends are reinvested).

Required:

What are the NAVs as on 31.3.2007, 31.12.2008 and 31.3.2009? 3+2+2

(c) MR. SMITH inherited the following securities on his uncle's death:

Type of security	Nos.	Annual Coupon%	Maturity Years	Yield
Bond A (Rs. 1,000)	10	9	3	12
Bond B (Rs. 1,000)	10	10	5	12
Pref.. shares C (Rs. 100)	100	11	—	13*
Pref. shares D (Rs. 100)	100	12	—	13*

* Likelihood of being called at a premium over year.

Required:

Compute the current value of Portfolios of Smith's uncle.

[Given PVIFA (12%, 3yrs.) = 2.402, PVIFA (12%, 5 yrs.) = 3.605]

[Given PVIF (12%, 3 yrs.) = 0.712, PVIF (12%, 5 yrs.) = 0.567] 2+2+1+1

Answer to Question No 4(a):

'Beta' as a measure of the systematic risk of a security

Beta is a measure of the systematic risk of a security that cannot be avoided through diversification. Beta is a relative measure of risk-the risk of an individual stock relative to the market portfolio of all stocks. If the security's return move more (less) than the market's return as the latter changes, the security's returns have more (less) volatility (fluctuation in price) than those of the market. It is important to note that beta measures a security's volatility, or fluctuations in price, relative to a benchmark, the market portfolio of all stocks.

Securities with different slopes have different sensitivities to the returns of the market index. If the slope of this relationship for a particular security is a 45-degree angle, the beta is 1.0. This means that for every one percent change in the market's return, on average this security's return change 1 percent. The market portfolio has a beta of 1.0.

A security with a beta of 1.5, indicate that, on average, security returns are 1.5 times as volatile as market returns, both up and down. This would be considered an aggressive security because when the overall market return rises or falls 10 percent, this security, **on average,** would rise or fall 15 percent. Stocks having a beta of less than 1.0 would be considered more conservative investments than the overall market.

Beta is useful for comparing the relative systematic risk of different stocks and, in practice, is used by investors to judge a stock's riskiness. Stocks can be ranked by their betas. Because the variance of the market is a constant across all securities for a particular period, ranking stocks by beta is the same as ranking them by their absolute systematic risk. Stocks with high betas are said to be high-risk securities.

Answer to Question No 4(b):

Date of Investment	Action	NAV	Units held	Return
1.7.2006	Original Purchase	Rs. 10	10000	-
31.3.2007	Dividend 10%	?	?	153.33%
31.12.2008	Dividend 20%	?	?	-
31.3.2009	Full Redemption of 11296.11 units	?	0	73.52%'

As on 31.3.2007, annualized yield of 153.33%

Therefore, we have as follows:

Annualized Yield = (Closing Value – Opening NAV / Original NAV) × 12/n × 100

For 9 months period from the beginning:

Annualized Yield = (Closing Value – 10) /10 × 12/9 × 100 = 153.33

∴ Solving, we get Closing Value = NAV as on 31.3.2007

= Rs. 21.50 (Cum div of 10%)

Therefore Units as on 31.3.2007:

100000 + (10000/21.50) = 10465.11 units

Payment of 20% dividend on 31.12.2008

= 10465.11 × 2 = Rs. 20930.22

Hence total units would be equal to: 11296.11

(as on 31.3.2009)

∴ NAV as on 31.12.2008 will be: 20930.22 / 831

(11296.11 – 10465.11) = Rs. 25.1868

Now we are given Annualized Yield as on 31.3.2009 = 73.52%.

Using the formula, we find the closing NAV as on 31.3.2009:

Annualized Yield = 73.52 = [(Clg NAV – 25.1868)/(25.1868) ×(12/3) × 100]

i.e Closing NAV as on 31.3.2009 should be Rs. 29.8161

Thus, the Required NAV AS ON:

(i) 31.3.2007 = Rs. 21.500

(ii) 31.12.2008 = Rs. 25.1868

(iii) 31.3.2009 = Rs. 29.8161

Answer to Question No 4(c):

COMPUTATION OF CURRENT VALUE OF SMITH'S PORTFOLIO INHERETED FROM UNCLE.

BOND-A: [1000 × 10 = 10000]		
Interest p.a. (10000 × 0.09) = Rs. 900		
Compounded @ 12% for 3yrs 900 × 2.402	2162	
Current Value of Bond Amount received on Maturity @ 12% on 3rd yr	7120	9282
(10000 × 0.712)		
BOND-B: [1000 × 10 = Rs. 10000]		
Interest p.a. (10000 × 0.10) = Rs. 1000		
Compounded @ 12% for 5yrs (1000 × 3.605)	3605	
Current Value of Bond Amount received on maturity @ 12% on 5th yr (10000 × 0.567)	5670	9275
Preference Shares C: (Rs. 100 × 100 Nos × 0.11)/0.13 = 1100 /0.13		8462
Preference Shares D: (Rs. 100 × 100 Nos. × 0.12)/0.13 = 1200/0.13		9231
TOTAL		**36250**

SECTION II

(CORPORATE LAWS)

Answer **Question No. 5** which is *compulsory* and any two from the rest in this section.

Question:

5.(a) Choose the most appropriate one from the stated options and write it down (only indicate A, B, C, D as you think correct):

(i) A public information officer shall as expeditiously as possible provide information from the date of receipt of request but in any case within

A. 15 days

B. 30 days

C. 45 days

D. 60 days

(ii) Under Competition Act, 2002, penalty for offences in relation to furnishing of information is

A. Rs. 5 lakh

B. Rs. 10 lakh

C. Rs. 25 lakh

D. Rs. 50 lakh

(iii) In the Context of corporate governance, Narayana Committee was formed in the year

A. 2002

B. 2003

C. 2004

D. 1999

(iv) An ordinary resolution is one which is passed in a general meeting by

A. a simple majority of votes including the casting vote of the chairman

B. 3/4th majority of votes

C. 2/3rd majority of votes

D. None of the above

(v) In the context of classification of risk, tax risks will fall under ————. (Fill in the gap from the below).

A. Credit Risks

B. Liquidity Risk

C. Disaster Risks

D. Legal Risks 1 × 5

(b) State whether each of the following statements is **True (T)** or **False (F):**

(i) An entity is to obtain certificate from a company secretary as to compliance of conditions of corporate Governance as provided in clause 49 of the listing agreement.

(ii) Related party transactions means a transfer resource or obligations between related parties regardless of whether or not a price is charged.

(iii) SEBI had in the revised clause 49 of the listing agreement mandated that at least 30% of the Board of a listed company comprise of independent Directors.

(iv) An index of members must be maintained by a company when its membership exceeds 100.

(v) Without the sanction of the Tribunal, the liquidator of a company can appoint an agent to do any business which he is unable to do himself. 1 × 5

Answer to Question No 5(a):

(i)➔ A. (ii)➔ B. (iii)➔ B. (iv)➔ A. (v)➔ B.

Answer to Question No 5(b):

(i)➔ False. (ii)➔ True. (iii)➔ False (iv)➔ False (V)➔ True

Question:

6.(a) State the importance of a remuneration committee in the context of corporate Governance. What are the responsibilities normally assigned to such Committee? 3+3

(b) What are the additional requirements stipulated in section 292A of the Companies Act, 1956 which are silent in clause 49 of the Listing Agreement? 3

(c) It is said that after the risk identification takes place, the actions involved in pinpointing suitable responses to the risk are broadly of five types. Elaborate on these five types of actions. 1+5

Answer to Question No 6(a):

REMUNERTATION COMMITTEE:

It is now a universally accepted proposition of corporate governance practice that Boards of directors of companies appoint appropriately composed remuneration committees to work out executive remuneration on their behalf. The combined code of the UK says that the remuneration committee will be responsible for working out remuneration package "to attract, retain and motivate executives of the quality required". The committee should decide where to position their company relative to other companies and take account of comparable remuneration and relative performance. With regard to the composition of the committee, as overwhelming majority of guidelines suggest that it be composed exclusively of independent non-executive directors. The committee would make its well considered recommendations to the board for final decision. The following responsibilities are normally assigned to a remuneration committee, which should have a written terms of reference:

a) Remuneration packages and service contracts of the CEO and other senior executives.

b) Remuneration packages for non-executive directors.

c) Remuneration policies and practice of the company.

d) Any company share and other incentive schemes.

e) Company superannuation and pension arrangements.

Answer to Question No 6(b):

Additional requirements stipulated as per Section 292A

The following additional requirements are stipulated as per Section 292A of the Companies Act, 1956 which are silent in Clause 49 of the Listing Agreement:

(i) The audit committee constituted shall act in accordance with terms of reference to be specified in writing by the board.

(ii) The recommendations of the audit committee on any matter relating to financial management, including the audit report, shall be binding on the board.

(iii) If the board does not accept the recommendation of the audit committee, it shall record the reasons therefore and communicate such reasons to the shareholders.

Answer to Question No 6(c):

Risk Identification

This step identifies the potential risks (or opportunities) facing the project. It is important not to judge the likelihood of a risk at this early time. This is done in a controlled manner in a later step. Attempting to form judgments while 'brainstorming' a list of potential risks may lead to hurried and incorrect decision to exclude some risks.

Once identified, risks are all entered in the Risk Log. This contains details of all risks, their assessment, owners and status. The Risk Log is a control tool for the Project Manager, providing a quick reference to the key risks facing the project, what monitoring activities should be taking place and by whom. Reference to it can lead to entries.

Identifies suitable responses to risk

The actions break into broadly five types, as shown below,

1. **Prevention Terminate the risk-** by doing things differently and thus removing the risk where it is feasible to do so. Countermeasures are put in place that either stop the threat or problem from occurring or prevent it having any impact on the project or business.
2. **Reduction threat the risk-** take action to control it in some way where the actions either reduce the likelihood of the risk developing or limit the impact on the project to acceptable levels.
3. **Transference-** This is a specialist form of risk reduction where the management of the risk is passed to a third party via, for instance, an insurance policy or penalty clause, such that the impact of the risk is no longer an issue for the health of the project. Not all risk can be transferred in this way.
4. **Acceptance-** Tolerate the risk – perhaps because nothing can be done at a reasonable cost to mitigate it or likelihood and impact or the risk occurring are at an acceptable level.
5. **Contingency-** These are actions planned and organized to come into force as and when the risk occurs.

Any given risk could have appropriate actions in any or all these categories.

There may be no cost-effective actions available to deal with a risk, in which case the risk must be accepted or the justification for the project revisited (to review whether the project is too risky), possibly resulting in the termination of the project.

The results of the risk evaluation activities are documented in the Risk Log. If the project is part of a programme, project risk should be examined for any impact on the programme (and vice versa). Where any cross-impact is found, the risk should be added to the other Risk Log.

Question:

7. (a) The Board of directors of Vivitha Pharma Ltd., decide to terminate the services of Mr. Upadhyay, employed as General manager. Mr. Upadhyay is occupying a flat owned by the company at Kolkata. The company fears that he may not vacate the flat. The Board desired to know the action to be taken under the Companies Act, 1956 to reassume possession of the flat. Advise appropriately. Will your answer be different if the flat is not owned by the company, but has been taken on lease? 4

(b) Vasudha Footwear Ltd. is of the view that XYZ Co. Ltd., is abusing its dominant position in the footwear industry. It wishes to lodge a complaint against XYZ Co. Ltd., before the Competition Commission. Briefly elucidate the factors which the commission will consider to ascertain whether XYZ Co. Ltd., is enjoying a dominant position in the footwear industry. 6

(c) Mr. Janak who had been appointed as director in Madhav Marbles Ltd., was to retire by rotation on 21st August, 2008. Due to reasons beyond the company's control, annual general meeting could not be held on scheduled date. Further, in the adjourned meeting also, the vacancy could not be filled up. You are required to ascertain whether under the provisions of the Companies Act, 1956, Mr. Janak shall be deemed to have vacated office on 21st August, 2008 when the annual general meeting was scheduled to be held or whether it will be deemed that he has been reappointed. 5

Answer to Question No 7(a):

ACTION AGAINST GENERAL MANAGER

The company can take action under Section 630 of the Companies Act, 1956 if the general manager refuses to vacate the premises provided by the company. According to Section 630, it is an offence, if any officer or employee of a company—

(1) Wrongfully obtains possession of any property of a company or

(2) Having any such property in his possession wrongfully withholds it or knowingly applies it to purposes other than those expressed or directed in the articles and authorized by the Act and such an offence is punishable with fine up to Rs. 10000/-. Further the court may also order such officer or employee to deliver to the company any such property wrongly obtained or wrongfully withheld within a time fixed by the court.

So the company can file a complaint under Section 630, as it provides speedy relief.

Section 630 covers either existing as well as past officers or employees. Thus, action may also be initiated after termination of the services of Mr. Upadhyay.

It is not necessary that the property in question should be owned by the company. Even if the company exercise only a leasehold right, the provisions of Section 630 can be invoked.

Answer to Question No 7(b):

Dominant position of an enterprise

The Competition Commission while inquiring whether the enterprise XYZ Company enjoys a dominant position or not under Section 4 of the Competition Act, 2002 will take the following factors into account:

(a) market share of the enterprise

(b) size and resource of the enterprise

(c) size and importance of the competitors

(d) economic power of the enterprise including commercial advantages over competitors.

(e) Vertical integration of the enterprises or sale or service net work of such enterprises.

(f) Dependence of consumers on the enterprises.

(g) Monopoly or dominant position whether acquired as result of any statute or by virtue of being a Government company or a public sector undertaking or otherwise.

(h) Entry barriers including barriers such as regulatory barriers, financial risk, high capital cost of entry, marketing entry barriers, technical entry barriers, economies of scale, high cost of substitutable goods or services for consumers.

(i) Countervailing buying power.

(j) Market structure and size of market.

(k) Social obligations and size of market.

(l) Relative advantage, by way of contribution to the economic development, by the enterprise enjoying a dominant positive having or likely to have an appreciable adverse effect on competition.

(m) Any other factor which the commission may consider relevant for the inquiry.

Answer to Question No 7(c):

DEEMED REAPPOINTMENT OF DIRECTOR

Section 256 of the Companies Act, 1956 deals with deemed re-appointment of a retiring director. The vacancies caused by retirement of a director by rotation should be filled up at the same meeting or at an adjourned meeting. If it is not so done, the retiring director shall be deemed to have been reappointed at such adjourned meeting except in the following cases –

(i) at any previous meeting, a resolution for his reappointment was put to vote but was lost, or,

(ii) the retiring director has, in writing expressed his unwillingness to continue, or

(iii) he is not qualified or is disqualified for the said appointment, or

(iv) a special or ordinary resolution is necessary for his appointment or reappointment by virtue of any provisions of the Companies Act, 1956 or

(v) it is resolved to appoint two or more directors by a single resolution, or

(vi) it is resolved not to fill the vacancy.

It the instant case the above mentioned exception are not applicable and hence Mr. Janak cannot be deemed to be retire. He is deemed to be re-appointed as director.

Question:

8. (a) Vasudha Group of Companies has under its fold, two public limited companies and a private limited company (which is a subsidiary of one of the public limited companies). The Group wishes to appoint Mr. NABIN as the managing director for all the three companies in its Group. Briefly advise the Group, with reference to the provisions of the Companies Act, 1956, whether and how the same is permissible. 5

(b) "A promoter stands in a fiduciary relation towards the company, he promotes" —Explain. 3

(c) What are the important elements of Good Project Governance? 7

Answer to Question No 8(a):

Number of companies for which a person can be appointed as managing director

As per the provisions of section 316(1) of the Companies Act, 1956, no public company znd no private company which is a subsidiary of a public company can appoint or employ a person as its managing director, if such person is a managing director or manager of any other company, whether public company or private company which is a subsidiary of public company, except as provided in sub-section (2) of Section 316.

Section 316(2) enjoins that a public company or a private company which is a subsidiary of a public company may appoint or employ a person as its managing director, if he is the managing director or manager of one, and of not more than one, [other company (including a private company which is not a subsidiary of a public company)].

In view of the above legal provisions, Mr. Nabin cannot, *prima facia*, be appointed as a managing director of these three companies (two public companies and the private limited company, which is a subsidiary of a public company).

An exception to the above is prided by section 316(4), which enjoins that the Central Government may, by order, permit any person to be appointed as a Managing Director of more than two public limited companies, if the Central Government is satisfied that it is necessary that the companies should, for their proper working, function as single unit and have a common Managing Director.

In the light of the aforesaid exception provided by the Companies Act, 1956, Vasudha Group of Companies should approach the Central Government and convince the Central Govt. about the importance and advantages of having a common Managing Director for all the three companies. If the Central Government is satisfied and issues an order accepting the plea of the Group, then only the Group can appoint Mr. Nabin as Managing Director of all these three companies of the Group.

Answer to Question No 8(b):

A promoter stands in a fiduciary relation (relation requiring confidence or trust) to the company which he promotes. The promoter in such a situation (i) must not make, either directly or indirectly, any profit at the expenses of the company which is being promoted.

(ii)must give to the company the benefit of any negotiations or contracts into which he enters in respect of the company,

(iii) must give full disclosure of all the relevant facts, including any profit and his personal interest in a transaction with the Company.

Answer to Question No 8(c):

Important specific elements of good Project Governance are enumerated as follows:

1. A compelling business case, stating the object of the project specifying the in-scope and out-of scope aspects.
2. A mechanism to assess the Compliance of the completed project to its original objectives.
3. Identifying all stockholders with an interest in the project.
4. A defined method of communication to each stockholder.
5. A set of business-level requirements as agreed by all stockholders.
6. An agreed specification for the project deliverables.
7. The appointment of a Project Manager.
8. Clear assignment of project roles and responsibilities.
9. A current published plan that spans all project stages from project initiation through development to the transition to operations.
10. A system of accurate upward status and progress-reporting including time records.
11. A central document repository for the project,
12. A centrally-held glossary of project terms.
13. A process for the management and resolution of issues that arise during the project.
14. A process for the recording and communication of risks identified during the project.
15. A standard for quality review of the key governance documents and of the project deliverables.