

**GOVERNMENT OF INDIA
CORPORATE AFFAIRS
LOK SABHA**

UNSTARRED QUESTION NO:2340
ANSWERED ON:08.12.2011
EARLY WARNING SYSTEM
Singh Shri Ravneet

Will the Minister of CORPORATE AFFAIRS be pleased to state:

- (a) whether the Government has evolved Early Warning System (EWS) to ensure that there is no recurrence of cases similar to the Satyam Scandal;
- (b) if so, the details thereof;
- (c) whether the Government has devised an Early Warning System(EWS) based on certain risk parameters including financial and non-financial measures to generate alerts regarding possibility of existence of unusual tendencies in financial statements;
- (d) if so, the details thereof;
- (e) whether the need to put in place an effective fast track mechanism to provide immediate relief to investors has been emphasized; and
- (f) if so, the details thereof?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF CORPORATE AFFAIRS (SHRI R.P. N. SINGH)

(a)to(f) The Ministry introduced an 'Early Warning System' (EWS) in 2009 based on certain financial and non-financial indicators to ensure, as far as possible, that there is no recurrence of cases similar to Satyam case. The criteria of EWS are used for online examination of Balance Sheets and other records of all listed companies and unlisted companies [(a) with a turnover of Rs 100 crore or more,

(b) with a paid up capital of Rs 50 crore or more, and (c) having 1000 or more shareholders.] to generate early alerts of possible violations which could lead to commitment of frauds. The criteria devised in 2009 was revisited and revised for identifying companies for their early scrutiny with the following salient features:-

(i) The companies (listed & unlisted) are run through six parameters, such as, (a) where the quantum of related party transactions are more than 5% of domestic turnover (Revenue items), (b) there is abnormal increase or decrease in profitability as compared to earlier year by more than 100%, (c) where the cash and bank balances are more than 50% of current assets during last 2 years, (d) where the combined quantum of investment made is more than 50% of the paid up capital and reserves during the last three years only, (e) where the quantum of loans and advances to total current assets is more than 50%, (f) Companies having large unsecured loans, as first filter;

(ii) The set of the companies identified / selected under category

(i) above, are then run through another set of five parameters, such as (a) Whether audit report of the company has been qualified or contains adverse remarks of auditors; (b) Whether accounting period is changed during the last 3 years & Changes of a few days without the month changing need not be taken note of; (c) Whether auditors were changed in last 3 years; (d) Whether 50% or more of the directors ceased to be directors during the last one year; (e) Whether promoters or relatives have either reduced their stake to 10% or below of the total paid up capital (Form 20B) or the change in their stake is 5% or more of the total paid up capital, for listed and unlisted companies separately, as a second filter;

(iii) Lists of listed and unlisted companies are also generated in various categories such as (a) disqualification of directors, (b) companies which failed to repay the matured deposits and interest thereon, (c) companies having charges but have not filed balance sheets and annual reports.

The list of aforesaid companies is finalized from the point of view of "public interest" involved. For the purpose of examination, public interest has been shifted to mean (i) the companies having accepted deposits but have not repaid matured amount and interest; (ii) companies having collected money through IPO; and (iii) the companies having taken secured loan but have not filed their due annual returns with the ROCs.