



भारत संचार निगम लिमिटेड
(भारत सरकार का उद्यम)
BHARAT SANCHAR NIGAM LTD.
(A Government of India Enterprises)

Company's Secretariat and Legal Division

THROUGH INTRANET/CR DAK

No.BSNL/SECTT/5-1/2011

Dated: 08.09.2011

Subject:- Enterprise Risk Management – Constitution of the ERM Committee by the Board of Directors

As all concerned are aware, while implementing the Corporate Governance Norms for the unlisted CPSEs laid down by the Department of Public Enterprises, the Board of Directors of the Company in their 122nd meeting held on 30.7.2009 laid down the Enterprise Risk Management Policy[ERM] of the Company [Annexure].

2. Constitution of ERM Committee:- Consequent upon inclusion of the "Establishment of Risk Monitoring Centres" as part of the Dynamic Parameters under MoU Mechanism, the Board of Directors of the Company have, in their 135th meeting held on 26.8.2011, constituted a Committee known as the ERM Committee, comprising of all the Executive Directors as Members and the ED[CA] as Member Convenor, with the overall objective of oversight, development and implementation of a risk identification and management process and the review and reporting of the same, in a consistent manner to the Board of Directors of the Company.

3. The ERM Committee shall, Review the effectiveness of the existing ERM Policy; Review the effectiveness and tolerance levels of the identified risks vis-à-vis the business operations and suggest improvements; etc. Review, and in consultation with the RMAs, identify the major risks confronted by the Company with respect to its enterprise and operations, specially with reference to ongoing projects and projects proposed to be implemented; and, Suggest changes to the ERM Policy. **The Committee shall meet once in every month and submit its recommendations to the Management Committee and thereafter to the Board**

4. With a view to facilitate and enable the ERM Committee in its functions, the Board of Directors have further decided as follows:- **"All the RMAs shall submit inputs, with respect to their respective Business Unit to the ERM Committee, through ED-CA Member Convenor of the Committee,** on the following:-

- (1) Analysis and proposed action plan to ensure adequacy and effectiveness of the:- [a] Company operations' risk management controls, [b] Company's Business Continuity Plans, [c] Company's exposure to fraud;
- (2) Analysis and proposed action plan to ensure that:- [a] Appropriate review of identified risks, together with the assessments of probability and impact, [b] Weaknesses in internal controls that have been identified have been followed up on a timely basis; and,
- (3) Review of significant transactions that are not a normal part of the Company's business, etc.

5. All concerned are requested to take note and keep sending Agenda Notes to the ERM Committee through ED-CA Member Convenor, at regular intervals.


J.H. ERM
CS & Sr.GM(L)

To

1. ERM Committee Members ED [NB] / ED[FIN] / ED[CN]
2. Member Convenor of the ERM Committee – ED [CA]
3. All the PGMs/Sr.GMs/GMs of the Corporate Office
4. The CMD and Functional Directors – for kind information.

Page: 1/16



भारत संचार निगम लिमिटेड
(भारत सरकार का उद्यम)
BHARAT SANCHAR NIGAM LTD.
(A Government of India Enterprises)

CG NORMS
ERM POLICY OF THE COMPANY
THROUGH CR AND THROUGH INTRANET

Company's Secretariat and Legal Division

No.BSNL/SECTT/25-4/2005

Dated: 18-08-2009

Subject:- Enterprise Risk Management(ERM) Policy of the Company and the Role of Risk Management Administrators - Compliance of Corporate Governance Norms - Regarding

As all concerned are aware, the Company had started implementation of the "Guidelines on Corporate Governance for the Unlisted CPSEs", issued by the Department of Public Enterprises with effect from the Financial Year 2008-09. One of the key ingredients of the CG Norms is "Enterprise Risk Management [ERM] Policy of the Company", which stipulate for integration and alignment of the risk management system with the corporate and operational objectives and also that risk management is undertaken as a part of the normal business practice and not as a separate task at set times". Accordingly, the Board of Directors of the Company have, in their 122nd meeting held on 30.07.2009, approved the Company's Enterprise Risk Management [ERM] Policy, which is enclosed as Annexure.

2. As laid down in the ERM Policy, "Risk Management Administration" shall vest with and form part of the integral functions of the Unit Heads of the Corporate Office and the field formations. Contents of the ERM Policy be brought to the notice of all concerned working under the unit heads, so that, while discharging their duties and responsibilities with respect to existing/ongoing activities, and; fresh Business Cases, Proposals, Agreements, Contracts, MoUs etc., the "Cardinal Principles", as enshrined in the ERM Policy of the Company are adhered to and complied with.

[Signature]
[H.C.Pant]
CS & GM(Legal)

Encl: ERM Policy

To

1. All the PGMs / GMs of the Corporate Office.
2. All the CGMs of Circles / Regions/Projects/Factories.

Copy, with enclosures, for kind information to:- CMD / Director (HR) / Director (E) / Director(CM) / Director (CFA) / ED - Finance / ED - CA/ ED - CN

Page: 2/16

पंजीकृत एवं निगमित कार्यालय : भारत संचार भवन, हरीश चन्द्र माथुर लेन, जनपथ, नई दिल्ली-110 001
Regd. & Corporate Office : Bharat Sanchar Bhawan, H.C. Mathur Lane, Janpath, New Delhi-110001
Website : www.bsnl.in

REGULATION BRANCH
BHARAT SANCHAR NIGAM LIMITED
(A GOVT. OF INDIA ENTERPRISE)

Subject:- Enterprise Risk Management(ERM) Policy of the Company

1.0 Introduction:

1.1 Risk is a fundamental and inherent part of any business activity. How companies manage these risks, determines how well they will succeed in their business and in accomplishing their overall objectives. All companies have explicit or implicit objectives which contribute to the maximization of the shareholders' value. Risk Management actively supports the achievement of these objectives. A properly implemented risk management policy has many potential advantages to an organization in the form of :-

- Better informed decision making;
- Less chances of major problems in new and ongoing activities and
- Increased likelihood of achieving corporate objectives.

1.2 The telecom service sector is highly sensitive to technology, regulatory and policy environment. It, being intensely competitive, is highly susceptible to consumer preferences and obsolescence. Further, its exposure to externalities is much greater than any other sector. The perception of risk for a telecom service provider, therefore, would be highly dynamic depending upon the situations unfolding from time to time.

1.3 Further, the concept of risk management with respect to a state controlled telecom company, which is subject to cumbersome governance procedures as well as its amenability for public scrutiny will differ from other similar private telecom service providers.

2.0 Objectives of Enterprise Risk Management(ERM):

2.1 Companies typically manage risks in silos. Individual departments focus on functional risks. But they seldom speak to each other to understand how risks in one department impact the rest of the organisation. In addition, department-specific technical approaches and philosophies to measure and monitor risks lead to inconsistencies in a company's overall approach to risk management.

2.2 ERM overcomes this limitation by providing a holistic, top-down view of risks that cuts across functional boundaries. Enterprise Risk Management (ERM) is fast becoming an imperative for companies around the world. This

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Page: 3/16

entails assessing, mitigating and monitoring mission-critical risks periodically – not only to prevent unwanted surprises and losses, but also to create a competitive advantage by exploiting upside opportunities. In doing so, it focuses on four key questions:

- Are we taking the right risks?
- Are we covered against these risks?
- Do we have the right infrastructure to manage these risks?
- How often, and how effectively, are we taking stock of the situation?

2.3 While the objectives of ERM may differ from entity to entity, the aforesaid key questions broadly apply to all the entities covering the following:

- Strategic : Pertaining to mission, vision and goals
- Operational : Relating to effective and efficient use of resources
- Reporting : With respect to the reliability and confidence level of the reporting system
- Compliance : Regarding compliance of applicable laws and regulations

3.0 Imperatives of ERM in terms of Corporate Governance Norms:-

3.1 The Guidelines on Corporate Governance Norms for the Unlisted CPSEs, made mandatory for the CPSEs vide para 6.3.1 of the Chapter for Board Disclosures, stipulate that *“the company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework. Procedure will be laid down for internal risk management also”*.

3.2 Further, the guidelines contained in Chapter 3 also lay down that *“considering the significance of risk management in the scheme of corporate management strategies and their oversight should be one of the main responsibilities of the Board/Management. The Board should ensure the integration and alignment of the risk management system with the corporate and operational objectives and also that risk management is undertaken as a part of normal business practice and not as a separate task at set times”*.

3.3 In addition, today’s modern risk management techniques make it clear that in identifying the risks, organization should identify **when, why and how** events could **prevent, degrade, delay or enhance** the achievement of the objectives of the organization. Therefore, BSNL’s ERM Committee endeavored

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Page: 4/16

to identify the potential risks for BSNL, integrate and align the risk management system with the corporate and operational objectives of the company and also recommends that risk management is undertaken as a part of normal business practice and not as a separate task at set times, as enunciated in the Guidelines for Corporate Governance in unlisted CPSEs.

4. Potential Risk Factors for BSNL:-

BSNL is an integrated telecom service provider having pan-India operations, except in the areas of Delhi and Mumbai. An analysis of the existing set up of the BSNL reveals that, in general, the following are the major risks associated with the business of the Company:

[A] Industry & Services Risks:- These risks could be categorized into the following:-

(i) **Economic risks:-** Arising/likely to arise due to country's/global economic conditions that may lead to reduced demand of telecommunication services in general or in a particular segment or any likely levy of tax on services which may lead to reduced demand and/or low ARPUs etc.

(ii) **Competition risks:-** Arising/likely to arise due to the positive/negative actions of the competitors on the services as a whole, including tariff pricing, costs, revenues, service differentiations/innovations and changing consumer preferences/requirements.

(iii) **Customer Relationship Risks:-** Arising/likely to arise due to the falling standards of quality in service, defective services, non-redressal of consumer complaints, wrong billings and any other consumer related grievances.

(iv) **Market related Risks:-** Cut throat competition demands accurate market study and strategies for sustaining the levels of planned growth, including efficient management of sales and distribution of products and services. It also requires quick response to the market dynamics. BSNL, being PSU and with the work force which does not have adequate marketing skills, is highly susceptible to such market related risks.

[B] Management and Operational Risks:- Such risks, which are common to every type of industry and equally applicable to BSNL, could be categorized into the following:-

(i) **Personnel related Risks:-** Unlike the past, now the sector is witnessing stiff competition, with multiple number of operators. Daily entry of new players

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pg: 5/16

into the field poses a risk of staff attrition. Further, BSNL has its own HR issues such as vast legacy manpower, lack of new skill sets, absorption issues, induction of young blood in the management cadre etc.

(ii) **Agency Network related Risks[Contract Management]:-**Such types of risks are common and associated with every business enterprise. With its massive expansion plans and requirements of stores and spares, maintenance contracts, outsourcing contracts, contracts for Value added services, contracts with other service providers etc., BSNL has been entering into many such contracts. In addition, there are many on-going litigations on various issues including contractual obligations arising thereto. Therefore, the risk of contract management assumes much greater significance for BSNL.

(iii) **Technological obsolescence Risks:-** Reduced cost of entry has cut down the capex of new entrants in the sector. This, together with rapid changing technologies, has put BSNL in a high risk zone because of its legacy network.

(iv) **Systems related Risks:-** Factors such as capacity crunch and time lag in capacity augmentation, deficient planning, uncoordinated equipment procurement and delay in penetration of new and virgin markets have their effect on the customer base.

(v) **IT Security related Risks:-** Factors relating to protection and maintenance of company's IT assets from external threats/thefts such as hacking, spoofing or any other cyber crime which may not only affect the operational systems but may also result in loss of business opportunities to BSNL as well as customer confidence.

(vi) **Property related Risks:-** BSNL, with its spread across the country, has vast moveable and immoveable properties comprising of exchanges, copper cables, OF Cables, Towers and other infrastructure. Proper security, prevention of loss and timely repairs and replacements are high priority zones. BSNL is prone to this risk also.

[C] Regulatory Risks:- Telecom Service is a licensed industry and is subject to frequent regulatory interventions. The regulatory decisions/interventions pose a major risk on the operational and financial aspects of the core business segment and its competitiveness vis a vis other operators.

[D] Policy Risks:- Telecom Services are governed by the license conditions imposed by the licensor i.e. the Government. Any change in Government policies like license conditions, regulatory compliances, change in tax structure,

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Page: 6/16

imposition of new levies, taxes pose a serious risk on the operational aspects and competitiveness of its core business segment.

[E] Financial and Liquidity Risks:- Such types of risks are common and associated with every business enterprise and can affect BSNL as well. These risks are:-

(i) Credit Risks:- Comprising of risks involved in revenue collection from the clients, collections from bankers, collection of IUC charges and other receivables from other private and public telecom licensees/international carriers.

(ii) Financial Solvency and Liquidity Risks:- BSNL is prone to this risk also due to its high fixed costs.

(iii) Cash/Reserve Management Risks:- Falling rates of interest and Government's policies on investment decisions pose risk to BSNL as well.


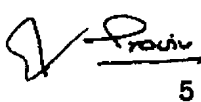

5. Present Organizational Framework and Risk Management Practices:

5.1 The business affairs of the Company are managed by the BOARD OF DIRECTORS , who have delegated few of their powers to the Chairman & Managing Director and Functional Directors. The CMD acts under the overall supervision and control of the Board. The Functional Directors responsible for various functions act under the overall supervision of the CMD/Board.

5.2 The unit heads like Chief Vigilance Officer, Company Secretary & GM(Legal) at Corporate Office and the Chief General Managers (Unit heads at field formations) act under the overall supervision and control of the CMD. The PGMs/GMs(as unit/branch head at Corporate Office) are reporting to the Functional Directors.

5.3 The Field units are managed by each of the Chief General Manager in accordance with the delegation of Administrative and Financial powers by the Board of Directors. They are responsible for the management of the unit under their jurisdiction in all respects *inter alia* provision, operation and maintenance of telecom networks/services, general administration, deciding on the techno-commercial and financial aspects of each transaction, ensuring Quality of Services and Customer Relations Management.

5.4 The PGMs/GMs at Corporate Office act as head of the nodal branches/wings, under respective Functional Directors, are generally entrusted

  
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Page : 7/16

with the responsibility of framing policy guidelines for their areas of activities and issue instructions/guidelines to the field formations in that regard.

5.5 BSNL, by virtue of being the successor of the erstwhile Central Government Departments of Telecom Services[DTS] and Telecom Operations[DTO], already has a codified set up with inbuilt mechanism to foresee the potential risks and methods to arrest, control, ignore and/or respond to the risks such as;

- (a) A codified Operational reporting system and Management Information system;
- (b) Mechanism to achieve and review the goals in line with the Mission and Vision of the company exists;
- (c) A dedicated wing is entrusted with the responsibility to oversee the regulatory issues including timely and adequate response to the regulatory requirements;
- (d) Vigilance Branch under CVO to handle the fraud detection and preventive measures;
- (e) Most of the telecom assets being highly technology sensitive and large part of OFC being underground, wherein, internal accruals are set apart for replacement of the obsolete assets and its repair and maintenance; and, a dedicated officer has also been appointed by the Board as the Custodian of the Assets of the Company;
- (f) Management of the Company by Sector Specialists;
- (g) The Company's decision making processes are adequately transparent and institutionalized.
- (h) Well defined HR policies to take care of governmental policies on employments, reservation in employments etc., and for preparation of Manpower plans to assess the future manpower needs;

6. Need to redefine Risk Management Practices:

The parameters which are being monitored by BSNL at present bring out the information only after the event has occurred and hence at best can be termed as the lag indicators. However, the imperative of an effective Risk Management System is to provide for lead indicators which may enable the organization to foresee the risks and proactively manage the same. Further, ever increasing competitive regime, regulatory controls and applicability of multiple acts, rules and regulations, the legacy issues coupled with the guidelines on corporate governance require a re-look and re-defining of the systems/mechanisms to make it compatible with the current business needs and the overall economic environment.

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Page: 8/16

7. The basic tenets of the risk management requires;
- Integration and alignment of the risk management system with the corporate and operational objectives and;
 - That risk management is undertaken as a part of normal business practice and not as a separate task at set times.

8. **Risk Management Policy:-** Considering the potential risks enumerated in Para 4.0 and the basic principles mentioned above, the committee proposes the following ERM policy for BSNL.

8.1 Risk Management Administrators: Since the policy requires for integration and alignment of the risk management system with the corporate and operational objectives, Business Heads in the Corporate Office; CGMs/PGMs/GMs and Other Unit Heads of the field units may be designated as the "Risk Management Administrators" for this purpose.

8.2 Identification of Risks:

8.2.1 As an ongoing exercise, each unit head (RMA) should at first instance; identify the risk involved in his area of activity as lead indicator and plan to manage such eventualities.

8.2.2 For identification of the risks, the respective units may require information on many counts such as;

- (a) Details of Assets information such as original cost, useful life and Net depreciated value of assets etc.
- (b) Information regarding service delivery
- (c) Product/ technology/service information and chances of liability
- (d) Liability information such as liability towards the employees/ the public/governmental/regularatory authorities etc.
- (e) Information with respect to competition and regulatory environment etc;

8.2.3 To enable the units in the aforesaid exercise, it is imperative that the company has strong and secure IT systems like ERP, OSS&BSS having applications like Billing, CRM, Provisioning, Accounting, Revenue Assurance, Fraud Prevention Systems, Unified Network Management System (NMS) across services for end to end Service delivery and Service Assurance Management, etc. and it maximizes the use of Online systems in administration

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Page: 9/16

as well as in operations with enhanced computer literacy of the employees/agents at all levels.

8.3 Treatment of the Risk:

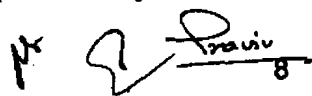
8.3.1 Once identified, the Risk could be dealt with, broadly, in the following ways;

(a) **Risk Avoidance:** As it is a rare possibility to avoid a risk completely, the Unit head should evaluate and suggest feasible measures for avoidance of the risk at the planning stage itself based upon the information. For example, timely action by the operational and maintenance can help avoiding the risk of disruption of services in many of the cases. Similarly, timely compliances with the regulatory and licensing instructions/directions will help saving undue penalties and loss of image.

(b) **Risk Reduction:** Physical risk reduction or loss prevention is the best way of dealing with any risk situation and usually it is possible to take steps to reduce the possibility of loss at the planning stage of any new project, when considerable improvement can be achieved at little or no extra cost. The risk prevention or reduction should be evaluated in the same way as other investment projects e.g. while planning for procurement of a product based on a specific technology, it should be ensured that the technology is proven and there is demand for such product. Further, the delivery of such product/service and after sales maintenance arrangement are well coordinated with the market requirements and the organizational needs to avoid any liability towards the Customer.

(c) **Risk Retention:** This is usually practiced to take care of the losses ranging from minor to major arising from break-down of operations. This method for containing losses may be considered only as **part of deliberate management strategy after conscious evaluation of possible losses and causes** e.g. while taking a decision to introduce a new tariff scheme, a conscious decision may be taken by the Company to bear the loss of potential revenue anticipated in case of poor response from the customers. But taking such decisions by remaining ignorant towards the developments on market /competition front may not prove good .

(d) **Risk Transfer.** This method of dealing with the risk pertains to the assignment of the cost of potential losses to the third party/other person. The risk transfer method could be effected either by a Insurance contract or by a specific stipulation in any Contract other than the Insurance contract e.g. in a contract for outsourcing any activity the liability towards the Employees of the Contractor or the public or public authority must lie with the Agency or the

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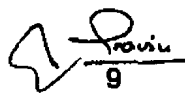

Page: 10/16

Contractor rendering/performing such outsourced activity. The high value assets may be insured against theft /fire etc.

8.3.2 To take care of the **Industry & Services Risks**, as enumerated in para 4.0 above, it is proposed that while Executing/Preparing/Submitting /Recommending any Plans/Proposals, such as, Long Term Plans, Strategic Plans, Procurements, Launch of New Services, Expansions, Capacity Augmentations, Technological change-overs, Acquisition of Lands and Buildings, Constructions, Participation in Tenders for any activity on behalf of the Company, New Tariffs, Bundling of freebies with the connections as part of advertisement campaign, competitive schemes etc., the "**Risk Management Administrator**" shall ensure that the following issues have been fully examined keeping in view the paramount interests of the Company:-

- ☞ The policies are futuristic, market and consumer oriented;
- ☞ Techno-economic viability and techno-commercial issues have been examined including Break-even analysis of the proposal ;
- ☞ The business plan prepared at the time of initiation of procurement process for Equipments for launch of any service is an integrated one encompassing business processes for Sales, Customer acquisition, Provisioning, Delivery, Billing, Service assurance, Customer care, requirements of Law Enforcing Agencies, etc.
- ☞ The proposal is in conformity with the provisions of the applicable laws such as MRTP, Competition Act, Regulatory Framework etc;
- ☞ The Right of way issues have been taken into consideration;
- ☞ The policies enshrine sound customer service relationship maintenance provisions and aim to retain the customer base; and rope in more customers;
- ☞ Dual technology deployment for the same line of business service utility on the same Target Segment and Geographical Spread is critically examined to avoid duplicate expenditure and loss of focus.
- ☞ Projected earnings are realistic after taking into account the market conditions & likely level of competition in the product category.
- ☞ Leverage IT to reduce operational costs thus increase profitability. IT systems, to take care of all these services, shall be identified in the beginning itself..
- ☞ Avoidance of multiplicity of IT systems and leverage on existing systems on incremental CAPEX instead of going for too many Greenfield IT systems in silos.

8.3.3 To deal with the **Management and Operation Risks** enumerated in para 4.0 above, the "**Risk Management Administrator**" must ensure that in

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Page: 11 / 16

addition to the issues stated in para 9.3.2 above, the following issues have also been examined and taken care of :-

- ☞ That Proper security of all the Assets of the Company is secured and ensured;
- ☞ That the assets of the company have been kept free of illegal encroachments;
- ☞ That the physical verification of all the immovable assets is being done regularly;
- ☞ That proper and timely re-conciliation of balances is being undertaken;
- ☞ That regular and constant steps are taken to prevent cause of any damage to the assets by the third parties;
- ☞ That the provisions of the applicable laws of the Central/State/Local bodies have been complied with;

8.3.3.1 Further, The Agency Network related Risks (Contract Management) under the category of Management and Operation Risks, assumes greater significance in its application in the corporate set up, and, includes everything under a Division, that is to say, on-going court cases, un-implemented court decisions, Agreements / Contracts / MoUs entered into by various Wings with the Central / State Governments, Local Bodies, Individuals / Association of persons / Firms / Body corporate(s) / Authorized Persons etc., for:- Procurements, AMCs, VAS Agreements, Inter-Operator related issues, Networking related issues, License Conditions Related, Marketing related, Advertisement Related, Consultancy for Professional Services related, With the Bankers for Collections from Consumers, Outsourced works such as Cable laying, ducting, canteen services, house keeping services, Vehicle Hiring, Hiring of Premises for Office; Hiring of space for installation of Towers; Personnel Management Related viz., On-going litigations, un-implemented court decisions, court notices, Consumer Grievances Related matters and host of other activities, which, assume the mantle of a binding contract by covenants. BSNL, an instrumentality of State, is amenable to the writ jurisdiction. Further, in outsourced works, BSNL steps into the role of Principal Employer and thus becomes responsible for the lapses of other agency/contractor. Some of the risks emanating under the Contract Management area are:-

- ☞ Bidders reaching courts, forcing procrastination of procurement schedules;
- ☞ BSNL being implicated as Principal Employer for violation of the Labour law provisions by the contractors/agencies;
- ☞ Agencies/Vendors/Contractors committing IPR Rules Violations, Information Technology Act violations, leading to implication of BSNL in cross litigations;

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- ☞ Agencies/Vendors/Contractors not following the non-compete agreements;
- ☞ Any act of commission / omission by the Agencies / Contractors / Franchisees / Sales Agents attracting the provisions of MRTP Act, Competition Act;
- ☞ Running out of time leading to freezing the limitation periods, thus eliminating the chances of filing appeals;
- ☞ Un-implemented/un-contested decisions being challenged for contempt;
- ☞ Inter-operator issues snowballing into litigations;
- ☞ Bills receivable getting locked up, leading to loss of interest and principal and consequential loss of profit margins; etc.

8.3.3.2 To take care of above issues, it is imperative that while Executing / Preparing / Submitting / Recommending the Procurements, AMCs, VAS Agreements, Inter-Operator related issues, Networking related issues, License Conditions Related, Marketing related, Advertisement Related, Consultancy for Professional Services related, With the Bankers for Collections from Consumers, Outsourced works such as Cable laying, ducting, canteen services, house keeping services, Vehicle Hiring, Hiring of Premises for Office; Hiring of space for installation of Towers; Personnel Management Related viz., On-going litigations, un-implemented court decisions, court notices, Consumer Grievances Related matters and host of other activities, which, assume the mantle of a binding contract by covenants "**Risk Administration Manager**" shall ensure the followings keeping in view the paramount interest of the Company:-

- ☞ Monitoring all the on-going Agreements/Contracts/MoUs/Litigations/Un-implemented Court Decisions/Arbitration Awards and other related issues regularly and meticulously;
- ☞ Briefing and keeping the next below hierarchy informed of the above, its impact on the business and all other relevant details;
- ☞ To find out and intimate changes/deficiencies, if any, to the Management;
- ☞ Take orders for corrective action;
- ☞ Resort to remedial action immediately like sending Reminders, Notices for recovery of dues;
- ☞ Decide further course of legal action;
- ☞ File Caveats immediately to pre-empt any ex-parte stay orders;
- ☞ Proceed further as directed by the Management or the Court as the case be;

8.3.3.3 For taking necessary preventive steps in regard to the **Personnel related Risks**, it has to be ensured that applicable provisions of all the labour welfare legislations, orders for providing reservation in employments to various

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Page: 13 / 16

categories of employees have to be complied with. Adequate care is required to see that all the legal notices and representations are settled at the earliest, to avoid litigations. All the on-going litigations, arbitration proceedings/notices, arbitration awards/unimplemented judgments require constant monitoring so as to avoid loss of time in limitation periods for filing appeals. Time-barred claims, Contempt Notices, Notice from Quasi-judicial and judicial forums are some of the examples of this type of risk. Therefore, while Executing / Preparing / Submitting / Recommending any matter on the above subject, "Risk Administration Manager" must ensure that all the relevant issues in this context have been examined very well keeping in view the paramount interest of the Company.

8.3.4 The Regulatory and Policy risks pose a major threat to the commercial viability of the telecom business. For example, any changes in the excise/import tariffs effecting the prices of equipments being procured or to be procured; any retrospective change/prospective change like sudden imposition of some cess on phone rentals by the State Governments ; any regulatory conditions/amendments to the Telegraph Act effecting the current contracts/agreements; any change in the spectrum allocation and pricing policy which has major implications on the viability of wireless business; any changes in FDI patterns involving changes of management/composition of the other body corporate with whom the company has current contracts/agreements and its impacts etc has major impact on the revenues/liabilities and competitiveness of the company. It is ,therefore, imperative that the concerned "Risk Management Administrator" must examine the techno - commercial, financial and legal implications of all such regulatory and licensing issues, orders/directions/decisions of Licensing Authority, TRAI, TDSAT or any other court or a statutory body and keep the management fully informed .

8.3.4.1 Spectrum is a scarce national resource and lifeline for all future services. It is, therefore, proposed that a separate unit may be setup under Director(Consumer Mobility) which will be responsible for the following and will assist all the business units in this regard:

- ☞ To analyze the various technologies in various spectrum bands and their deployment in a concentrated, harmonized manner including profit and loss analysis of using various technologies for providing voice and broadband services;
- ☞ Reforming and harmonization of various existing technologies;
- ☞ Methodology and roadmap to reduce annual spectrum charges;
- ☞ Proactive co-ordination with WPC and DoT for all spectrum related issues including allocation process, Pricing policy and formulation of the National Frequency Allocation Plans to protect the interests of BSNL

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8.3.5 The **Financial and Liquidity Risks**, as enumerated in para 4.0, can be mainly categorized as Credit Risks, Financial Solvency and Liquidity Risks and Cash Reserve and Management Risks.

8.3.5.1 The **Credit Risks** comprise of risks arising in the sphere of "revenue collection", which could be from the consumers, from the franchisees, from authorized sales agencies, from bankers, Bills Receivable, interest on Short-Term and Long-Term Investments with the bankers and financial institutions, dues from other operators and various types of other dues from other persons/operators, as per respective agreements. While Executing / Preparing / Submitting / Recommending any of these matters, "**Risk Management Administrator**" shall ensure that the following issues have been examined keeping the paramount interest of the Company:

- ☞ Possibility of misappropriation of cash at collection centres;
- ☞ Possibility of receipt of fake currencies in collection centres;
- ☞ Bouncing of cheques of consumers/other operators;
- ☞ Delay in transfer of funds to the Revenue Collection Accounts by the authorized bankers under i-banking/e-commerce leading to loss of interest;
- ☞ Delayed/Non re-conciliation of accounts with the bankers, other operators and consumers, resulting in blocking of receivables.

8.3.5.2 For a very big organization spread across the country, that too in service provision segment which depends on timely realization of the dues, the **Financial Solvency and Liquidity Risks** assume greater significance. While Executing / Preparing / Submitting / Recommending any matter on the above subject, "**Risk Management Administrator**" shall ensure that the following issues have been examined:

- ☞ Slow realization of current assets and advances, presenting an adverse liquidity ratio;
- ☞ Overall financial solvency ratio going below the average industry levels;
- ☞ Comparative ratio analysis showing declining trends

8.3.5.3 **Cash/Reserve Management Risks** of a company depend on the company's policies and the influence of the Government's policies and guidelines on investment of surplus funds of the CPSUs, inflation trends, Foreign Exchange fluctuations and RBI's policies on Interest Rates. The "**Risk Management Administrator**" must keep a close watch on these issue/events and keep the management apprised of any such risks.

AK *Prasanna* *hg*
13

Page 15/16

8.3.6 IT Security Risk The risk includes financial loss, public embarrassment, loss of public confidence, noncompliance to regulatory requirement. In order to minimize this risk, IT Security Policy should be implemented in the organization. The security policy should be implemented for all Data centers of BSNL. All security programs should be audited on a routine and random basis to assess their effectiveness. The users should be given awareness about the security issues and regular trainings should be imparted to the users

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Page: 16/16