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IFRS 13: FAIR VALUE MEASUREMENT – THE ROAD AHEAD

Dr. Santanu Das, Assistant Professor

The International Accounting Standards Board (IASB) recently notified IFRS 13: Fair Value Measurement (FV), as unaccompanied standards. This is a step forward in assuring a more transparent and compatible financial reporting of assets, liabilities and financial instruments. The standard gives a comprehensive guidance as to how to measure fair value of assets and liabilities excluding leases (IAS 17), inventories (IAS 2) and impairment of assets (IAS 36). But there has been a long debate among standard setters, regulators and analysts about the efficacy of fair values. Some arguments in favour of fair value are investors concern about value of the firm, irrelevance of historical costs with the passage of time and that fair value represents economic value of reported assets and liabilities. While it is easy to measure the fair values of financial assets and liabilities for there is an active market or many similar securities are available, the problem arises for assets and liabilities for which there is no active market or more specifically non-financial assets. Under these circumstances, it is imperative to have clear and unambiguous directions for measuring FV.

The basic notion behind providing FV guidelines is the information it carries to the market and the value that it creates for the shareholders. However, it is the income statement and not the balance sheet that conveys the information to the shareholders. This assumption lies in the seminal work of Richard Sloan in 1996 in which he reported that investors weigh upon the reported income of a firm before making an investment decision. Thus, it will be debatable whether FV measurement will actually be a creator of value. IFRS 13 suggests some valuation techniques for FV estimation. These methods are however not restrictive. It means that FV of an asset X might be different for two different analysts. Valuation texts suggest that the best approach for finding value of any asset is the present value of estimated cash flow discounted at an appropriate rate. However, as this method relies upon forecast cash flows (or earnings), it suffers from estimation bias. Therefore, under the FV approach, the value is capitalized earnings wherein the discount rate is weighted average cost of capital. Whereas, under the historical accounting the future earnings is assumed to be a linear function of current earnings. If this is true then we can estimate values from the income statement directly and there is no need to apply the balance sheet model. In short, historical accounting does not report value created out of expectation but out of planning and its proper execution during past periods. This gives rise to two facets of valuation-valuation based on expected economic earnings (the economic profit model) and valuation based on expected earnings which in turn is dependent on past / historical information (the linear information dynamics model). The supremacy of these two models is still to be debated.

Another interesting component of IFRS 13 is the estimation of FV of liabilities and equity. It suggests a pecking order for the FV of the liability of interest. First, the quoted price be taken as the FV, if there exists an active market for these instruments. In the absence of quotations in public domain, inputs such as the quoted price in a market that is not active for the identical item held by any other party as an asset. In case both the above methods cannot be used then value need to be determined on the basis of discounting of future cash flows (the income approach) or using a quoted price of any benchmark security (the matrix approach). Application of these methods requires accuracy and consistency in estimating future expected cash flows. This will itself create the barrier as these discretionary measurements may not reveal the actual worth of an instrument. Take the example of stock prices trading on any exchange. According to IFRS 13, the FV of an equity stock can be approximated to its trading price as on any given date. But, the stock price itself is affected not only by firm specific variables but also by other macro-economic determinants at the same time. Then how the FV pegged to this price be assumed to be the worth of the equity? This leads to another area of research. Estimating the permanent and the transitory components of liabilities and more specifically the equity prices. The FV may then be benchmarked to the permanent component and it will give a possible solution to FV estimation problem. Many argue that pegging asset prices to market value, for which notional profit / loss need to be recognized, led to financial crisis of 2008. It may have justification but only marking-to-market of the financial instruments cannot be held responsible for any systemic failure. In fact, both FV accounting and historical accounting may give misleading information if not used properly. Improving the quality of both of them will ensure transparent financial reporting. Efforts must be made to improve corporate governance and control mechanisms to achieve the above objective.
MY TIME WITH STATE SECRETARIAT, GOVT. OF ODISHA

Viswanadha Sandeep
Intern, Govt. of Odisha, Bhubaneswar
PGDM 2013-15

Here, I got the opportunity to hone my skills and implement abstract concepts in a real time framework.
I was indeed lucky to have got the opportunity to intern with Planning and Co-ordination Dept., Odisha Secretariat.
I was always interested in government affairs, I immediately grabbed this opportunity to get a first-hand experience of how the state functions, how various government bodies operate and how heads of department collaborate and integrate their activities for the administration of a prosperous state.
As an Intern in Innovation Cell of P&C Dept., we were to brainstorm and suggest innovative, out of the box ideas targeting leading edge for growth of the State in various sectors. The focus was on implementing strategy & modernization in Government set up. Along with tremendous leaders, I had the august company of other B-School students across the globe as fellow interns.
The work profile also included several field trips to different Government Offices which includes: Bhubaneswar Development Authority, Bhubaneswar Municipality Corporation, Pollution control Board, Odisha water Supply and Sewage Board and Odisha Power Transmission Corporation Ltd. It helped me understand how different bodies work hand in glove with one another for frictionless work flow.
The zenith of the experience was the privilege to work with the Development Commissioner cum Additional Chief Secretary Shri Injeti Srinivas I.A.S and Special Secretary to Government of Odisha Shri D. N. Gupta I.A.S (Reporting Authority) from close quarters. Their vision and guidance helped me gather insights and broaden my horizon on the entire concept of Strategy & Innovation. At the end of this programme, I was enlightened and delighted at the command I had gained over strategy and the different levels of marketing. I also realized the magnanimity of the institution where I was working when I crossed shoulders with eminent personalities like Cyrus Mistry, Anil Agarwal, Navin Jindal and World Bank Officials!
I feel privileged to have been able to do something such as this and I am also extremely grateful to IMI Bhubaneswar for enabling and preparing me to take up such a challenge and do justice to it. My experience during this period has been very useful in terms of learning about a structured approach of co-ordinating and setting up of plans while formulating blueprint for the business workflow in different units. This short stint has helped me in huge proportions and sharpened my mind to influence the decisions that I will make in future.

WE LEARN TILL WE DIE

Bibhu Prasad Rath
Associate Research Manager, IMRB International, Bangalore
PGDM 2012-14

It's a myth that "Things we learn in classroom are never used in practical". IMI-B gives you the platform to use it and pursue your passion in the aspired industry.
Some constraints, some apprehensions but lots of expectations and excitement: My journey at IMI-B started with all these emotions. At the end of two years it was beyond the expectation I had set for myself.
"MBA is all about learning": Whether it is inside the classroom or outside the classroom through events and various clubs & committee responsibilities (I was involved with cultural, student relation and corporate relation activities).
From everything that I have learnt here, If i have to pick the 3 most important things, then those will be - "Patience" "Confidence" and "Effort". These may seem very generic but these are some key requirement to get succeed.
Now the corporate life at IMRB. Everything that I have learnt in marketing, Consumer Behaviour & MR is being utilised here. Thanks to IMI for the high level of academic focus and quality teaching. The first few days at IMRB has been really great and exciting. But focus has not shifted from learning. Really,"We learn till we die".
IT IS NOT JUST AN INSTITUTION, BUT A FAMILY

Puntatoya Panigrahi, 2nd year student, PGDM 2013-15

When I got the news that I was selected for IMI Bhubaneswar my happiness knew no bounds. I have been born and brought up in Bhubaneswar- the city of temples. For obvious reasons I am passionate about my city! Therefore, pursuing PGDM in an internationally acclaimed institute right in my own city was exhilarating! Cheers to IMI Bhubaneswar!

I threw a grand party to my project team at TCS and gleefully waited for the day of the commencement of classes at IMI BH. After 2.8 years of corporate life I was hitting college again! From that very moment, my life had already changed! I was actually spending all my time in the office to check everything I could about IMI, on the internet! Things about its legacy, about the institutional culture, student's profiles… Then, I can actually go on to say I was troubleshooting the administration of IMI BH every now and then as well as few of my seniors (voluntary mentors) to know it all before I arrived there….. my questions ranging from how equipped are classrooms, how many lifts, security, mode of conveyance, the subjects we had, faculties, how comfortable are hostel rooms…

Corporate life had conditioned me to plan everything in advance but my decision to join IMI was instantaneous and to a great extent inspired and influenced by my father. He takes pride and feels honoured to have been closely associated with our Director General Padmashree Pritam Singh Sir at some point of time. My father believed that an institution under the leadership of a man of such high ideals who possesses the capabilities of turning around the system of education in the nation, this institute is simply a star waiting to outshine! So, with all that legacy and pride, I was literally having a tough time to WAIT!

But behold! Just 5 days before my orientation programme, I met with a severe accident, broke both my leg and hand. With that monstrous blue plaster I arrived at IMI BH to meet our director, Prof Ramesh Behl Sir to seek an appropriate way to deal with the tragedy… To my pleasant surprise, he was so genuinely concerned and extra supportive to help me out in whichever way possible, he offered to render any assistance or support that is attainable… The same was the love and care by all my doting professors… and today after almost a year, I still get reminded of those tough times but the love and support I received brings me back only smiles…. I shall remain forever grateful to the entire family of IMI BH for supporting me through the most difficult times… right from bringing me food packed from the canteen to helping me with the ramp, to my seating arrangements and everything else and more than what a disabled person might need.

It was since the inception at the new institute, and more so during those days I realized; IMI Bhubaneswar was not just an institution, but a FAMILY! With a father such as our director, with other seniors such as our adorably and intellectually laden faculty members, with the extra sincere staff and administration persons, IMI Bhubaneswar was indeed a home away from home.

Despite the ups and downs, teething problems of any nascent organization, the love, care, attention, dedication and support of the entire family was something that was truly rewarding. Any problem, any issue, once reported has always been attended to and taken care of in the best possible manner.

Keep looking for ‘my experience with IMI Bhubaneswar’- Part II and more such insightful episodes….. Thanks for your patient reading.
MOTOR INSURANCE INDUSTRY IN INDIA

Achint Saini
Associate Vice President,
Toyota Tsusho Insurance Broker (India) Pvt. Ltd., Bangalore

Motor insurance policy is essentially perceived as "protection-against-accident". However, there are solutions available that offer comprehensive covers against other impacts of accident while offering the customers the opportunity to enhance their vehicle's insurance coverage.

You do not hesitate spending lavishly to buy your dream vehicle, load it with extravagant accessories and oft even prefer to go for super-premium quality fuel while also using premium cleaning solutions! What stops you from buying a premium motor insurance cover?

Motor Insurance Industry in India is witnessing new products and acceptance at customer level. Customers are buying various motor add-on features in order to enhance & widen their insurance coverage. Still there's a huge space for new features accessibility.

“Add-on” features in the motor insurance cover became available in 2007 when IRDA opened the product filing for the insurance companies.

Still “nil-depreciation” is most popular “add-on” feature amongst customers. This is in spite of 13 or 14 new “add-on” features that are currently available with insurance companies. The reasons for low penetration level of motor add-on features could be attributed to many factors. One reason could be that the, Risk Takers i.e. the Insurance companies do not to want to sell more of such products as it may have a detrimental effect on their bottom lines. The inherent nature of such products could lead to losses. Another bottleneck could be the distribution network itself. Various distribution channels are not trained enough by insurance companies to sell motor “add-on” features.

Financial services products in India have been witnessing massive changes for the better. Time is ripe for action in motor insurance segment now.

With the new government in the driver's seat, many industry sectors including the Indian automobile industry & Indian general insurance industry are poised for explosive growth. And indeed the motor vehicles need insurance. Educating the customers on the benefits & advantages of the “add-on” products and making a case for some compelling reasons to consider better insurance products is a huge task. With the growth anticipated in the automobile sector, many sub-sectors and segments are likely to experience growth and derived demand as well. The demand for suitable talent in this sector is already being felt. Many insurance companies are hiring well-groomed and educated fresh MBA graduates. We, at Toyota Tsusho Insurance Broker India Pvt. Ltd, are no different. While experienced candidates have their advantage, the freshers come in with zero baggage and if they are quick learners, sky is the limit! No wonder there is a slight preference for the freshers.

And when you are planning to buy a motor insurance cover for your dream vehicle, do check with your agent/bank/broker regarding the availability of “add-on” features that may suit your requirements better while also offering enhanced insurance coverage.
MDP on **Leadership and Team Building** for Sai International School

Mr. Harish Sanduja, Principal-Sai International School giving away participation certificates

Session on “**Customer Care & Team Building**”

Session on “**Communication Excellence**”

MDP participants – **Coordinators of Sai International School**

MDP participants – **HODs of Sai International School**

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**Dear Reader,**

Please enrich IMI Bytes Team with your constructive suggestions to Prof. Dindayal Swain, Mr. Rituraaj Juneja imibyes@imibh.edu.in https://www.facebook.com/pages/IMI-Bhubaneswar/1220113978885240

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