

## **Query No. 18**

**Subject: Presentation of financials of the schemes and funds sponsored by the Government of India (GoI) and managed by the Corporation in its financial statements.<sup>1</sup>**

### **A. Facts of the Case**

1. A Corporation (hereinafter referred to as ‘the Corporation’) was established under the Life Insurance Corporation Act, 1956 and is engaged in the business of life insurance in and outside India. The Corporation is governed by the provisions of the Act under which it is formed and notifications thereunder (‘the Governing Act’ or ‘the LIC Act’). It is also registered with the Insurance Regulatory and Development Authority of India (IRDAI) and is subject to such provisions of IRDAI Act and regulations thereunder which are not inconsistent with the provisions of the the Corporation’s Governing Act. The equity shares of the Corporation are listed on National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) (w.e.f. 17<sup>th</sup> May, 2022).

2. The Corporation offers a range of individual and group insurance solutions including participating, non-participating and unit linked lines of businesses. The portfolio comprises of various insurance and investment products, such as, Protection, Pension, Savings, Investment, Annuity, Health, Variable and Capital Redemption and Annuity Certain (CRAC).

3. The Corporation prepares its Standalone Financial Statements (SFS) as per the requirements of Life Insurance Corporation Act, 1956, the Insurance Act, 1938 (‘the Insurance Act’), the Insurance Regulatory and Development Authority of India Act, 1999 (‘the IRDAI Act’), the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor’s Report of Insurance Companies) Regulations, 2002 (‘the Regulations’), Securities and Exchange Board of India Act, 1992 (‘SEBI Act’) and as per the applicable framework of Accounting Standards (AS), issued by the Institute of Chartered Accountants of India (ICAI).

4. The Corporation’s financial statements comprise of Balance Sheet for life insurance business, health business, pension business, the related Revenue Accounts (also called the Policyholders’ Account or the Technical Account) for the life insurance business, health business, pension business, the Profit and Loss Account (also called the Shareholders’ Account or the Non-Technical Account), the Receipts and Payments Account (also called as the Cash Flow Statement) and notes to the standalone financial statements, including a summary of significant accounting policies and other explanatory information as required.

5. The Corporation also prepares its consolidated financial statements (CFS), which comprise of financial statements of the Corporation and its subsidiaries and associate companies. These consolidated financial statements for the Group are prepared in accordance with the principles and procedures for preparation and presentation of consolidated financial statements as laid down under Accounting Standard (AS) 21, ‘Consolidated Financial Statements’ and are presented in the same format as that of the Corporation.

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<sup>1</sup> Opinion finalised by the Committee on 26.6.2023.

6. The Government of India, through its respective annual budgets, has announced different schemes for the benefit of different classes of society, which are administered and managed by the Corporation. The details of these schemes are as follows:

**A. Immediate Pension Schemes (Individual)**

- (i) Varishtha Pension Bima Yojana (2 Plans)
- (ii) Pradhan Mantri Vaya Vandana Yojana (3 Plans)

**B. Deferred Pension Schemes (Group)**

- (i) Pradhan Mantri Shram Yogi Maandhan Yojana
- (ii) Pradhan Mantri Kisan Maandhan Yojana
- (iii) National Pension Scheme- Traders

**C. Funds Managed on behalf of the GoI**

- (i) Social Security Fund
- (ii) Scholarship Fund

Varishtha Pension Bima Yojana (VPBY) and Pradhan Mantri Vaya Vandana Yojana (PMVVY) are the Government subsidised immediate pension schemes to protect elderly persons aged 60 and above against fall in their interest income. These Government subsidised schemes give assured returns to the policyholders in the form of pension. Government of India has launched these schemes through the Corporation and all these schemes are administered by the Corporation. As these are Government subsidised schemes, any difference between returns generated by the Corporation and assured returns under these schemes is borne by GoI as a subsidy to the Corporation. GoI also reimburses the expenses incurred by the Corporation, subject to ceiling of certain percentage of the Fund Value.

Plan No	Plan Name	Plan Start Date	Plan End Date for New Business	Available for New Business
161	Varishtha Pension Bima Yojana	14/07/2003	09/07/2004	No
828	Varishtha Pension Bima Yojana	16/08/2014	15/08/2015	No
842	Pradhan Mantri Vaya Vandana Yojana	04/05/2017	03/05/2018	No
842 New	Pradhan Mantri Vaya Vandana Yojana	04/05/2018	31/03/2020	No
856	Pradhan Mantri Vaya Vandana Yojana	26/05/2020	-	Yes

Pradhan Mantri Maandhan Yojana and National Pension Scheme-Traders are Group Guaranteed Deferred Pension Plan for unorganised workers, small and marginal farmers and small traders. The corpus of these schemes is equally contributed by the GoI and members by

way of yearly premium. In case of any shortfall between accumulated corpus and purchase price of the pension, Government will reimburse the same to the Corporation. GoI reimburses the expenses incurred by the Corporation, subject to ceiling of certain percentage of the Fund Value.

Plan Name	Plan Start Date	Available for New Business
Pradhan Mantri Shram Yogi Maandhan Yojana	05/03/2019	Yes
Pradhan Mantri Kisan Maandhan Yojana	12/09/2019	Yes
National Pension Scheme- Traders	12/09/2019	Yes

Social Security Fund and Scholarship Fund were created by the GoI. Social Security Fund was created to finance Life Insurance Scheme for the weaker and vulnerable section of the population. The Scholarship Fund was launched to benefit the children who were studying in standard 9<sup>th</sup> to 12<sup>th</sup> and whose parents were covered under Jana Shree Bima Yojana/Aam Admi Bima Yojana.

Fund Name	Year in which Fund entrusted
Social Security Fund	1988-89
Scholarship Fund	2001-02

These schemes/funds do not generate any profit or loss for the Corporation.

7. The Corporation is seeking opinion from the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) for the presentation of financials of Schemes and Funds sponsored/subsidised/ funded by the Government of India (GoI) and managed by the Corporation in the financials of the Corporation. Presently, separate financials of these schemes and funds are prepared, which are not included in standalone and consolidated financial statements of the Corporation. The same are not disclosed in Annual Report also.

8. *Details of Pradhan Mantri Vaya Vandana Yojana (Plan 842), an Individual Pension Plan/Scheme managed on behalf of the Government:*

### **Background**

The Government of India had announced the ‘Pradhan Mantri Vaya Vandana Yojana’ (Plan No. 842) for senior citizens aged 60 years and above to provide an assured return of 8% p.a. payable monthly (i.e. equivalent to 8.30% p.a.) to the pensioner surviving during the policy term of 10 years. The Scheme was available for sale from 4<sup>th</sup> May, 2017 to 3<sup>rd</sup> May, 2018. This is a Government subsidised scheme and the Corporation is given the sole privilege to operate the said scheme.

### **Details of the Plan**

1. As per the instructions of the GoI, the Corporation has obtained approval from IRDAI before launch of this scheme.

2. As this is a Government subsidised scheme, any difference between returns generated by the Corporation and assured returns under this scheme is borne by the GoI as a subsidy to the Corporation. Thus, Government's financial liability is limited to the extent of the difference between market returns generated by the Corporation and the guaranteed return of 8% p.a. under the scheme. The operating expenses incurred by Corporation for managing the scheme are reimbursed by the GoI which is capped at 0.50% of the fund value. Reimbursement of subsidy is done on yearly basis by the Government of India.
3. As per instructions from the Government of India, investment of the funds shall be as prescribed for Pension Fund by the Insurance Regulatory and Development Authority of India (IRDAI).
4. IRDAI while giving its approval to the Corporation for launch of pension schemes has instructed the Corporation as follows:
  - Separate fund shall be maintained similar to any social security fund, which is maintained and administered by the Corporation on behalf of the GoI.
  - No transfer of funds from the Policyholders' Fund (Life Insurance Fund) to this scheme shall be allowed, so that interests of the other policyholders are not affected by the implementation of this scheme.
  - Any deficit in funds under the scheme would have to be made good by the GoI as a part of the scheme.
5. As per instructions from IRDAI, the Corporation is maintaining separate fund for this scheme, and accordingly no funds are transferred to/ from Life Insurance Fund.
6. Annual actuarial valuation is carried out by the Corporation for preparing the financials of this Scheme. However, since this is a Government supported assured scheme, any shortfall between actual returns generated and assured returns, is reimbursed by the GoI as subsidy on yearly basis.
7. All the investments under this scheme are made as per IRDAI Investment Regulations. These investments are held in the name of the Corporation, on behalf of the GoI. Investment decisions and performance of these investments are monitored by the Corporation.
8. This scheme does not generate any profit or loss for the Corporation.
9. All the scheme policy documents are in the name of the Corporation, as these schemes are launched by the Corporation on behalf of the GoI.
10. Separate financial statements are prepared by the Corporation for the scheme as per applicable accounting standards and the rules and regulations prescribed by IRDAI and are approved by the Board of Directors of the Corporation. The same are subject to audit by the auditors of the Corporation. These financial statements and utilisation certificates (UC) are submitted to the GoI on annual basis.

11. As this is a product launched by the Government of India and administered by the Corporation and separate fund is maintained, financials and valuation results of the scheme are not filed with the IRDAI.
  12. Considering the points mentioned above, as per the instructions given by the GoI and IRDAI, from time to time, in this regard, the accounts of this scheme are neither merged with the standalone accounts of the Corporation on standalone basis nor are considered for consolidation while preparing consolidated financial statements of the Corporation. Disclosures in this regard are also not made under 'Segment Reporting' or by way of any information in the notes on accounts of the financial statements of the Corporation. The same are not disclosed in the annual report of the Corporation.
9. The querist has reproduced the excerpts of Cabinet Note dated 23.1.2017 seeking ex-post facto approval for launch of Varishtha Pension Bima Yojana – 2017 (which was subsequently renamed as 'Pradhan Mantri Vaya Vandana Yojna') as follows:
1. Varishtha Pension Bima Yojana (VPBY) 2017 is proposed to be a Government supported Scheme to protect elderly persons aged 60 and above against a fall in their interest income due to possible fall in interest rates and at the same time, assure a certain minimum return on initial corpus contributed while subscribing to the scheme. It is intended to be launched through the Corporation for the benefit of all senior citizens aged 60 years and above.
  2. The reduction in the term of the scheme from 15 years in VPBY 2014 to 10 years in VPBY 2017 reduces the financial liability of the Government of India.
  3. The guaranteed return under the proposed scheme would be 8% p.a. The differential return, i.e. the difference between the return generated by the Corporation and the assured return 8% p.a. would be borne by the Government of India as subsidy on an annual basis, apart from management expenses. The Corporation has obtained the approval of Insurance Regulatory and Development of India (IRDAI) for launching the scheme.
  4. In the proposed scheme, the expenses are restricted to be within 0.50% p.a. of the fund value. However, actual subsidy on this account will be based on actual expenses within this limit.
  5. Investment of the funds shall be prescribed for Pension Fund by the Insurance Regulatory and Development Authority of India. As per the IRDAI advice on the latest VPBY-2017, a separate fund similar to any social security fund shall be maintained by the Corporation on behalf of Government of India. This is in line with the investment mechanism followed under earlier schemes VPBY-2003 and VPBY-2014.

The querist has also provided relevant excerpts of letter from IRDAI in respect of Pradhan Mantri Vaya Vandana Yojana dated 17.04.2017 as follows:

“The Corporation may launch the product any day after the Corporation receives this letter subject to the following conditions being satisfied:

1. Separate fund shall be maintained similar to any social security fund, which is maintained and administered by the Corporation on behalf of the Government of India.
  2. No money is transferred to this scheme out of policyholder's fund (Life Insurance Fund) so that the interests of the other policyholders are not affected due to losses under the scheme.”
10. The querist has also separately informed the following:
- (i) The Corporation manages these schemes on behalf of Government of India (GoI) on 'No profit or no loss' basis. The Corporation does not charge any management fees or commission or any similar income does not accrue to the Corporation for these schemes.
  - (ii) Any excess return on investments under any Plan is carried forward to subsequent period and the same is utilised in the subsequent period under the same Plan for providing assured returns to annuitants and adjusting expenses.
  - (iii) In these schemes, so far, there was no occasion to bear any risks due to bad investments or frauds of any nature. All the investments are standard assets. In future, if any of the investments turn out to be bad, yield will be net of losses and the difference between the yield generated and assured return will be reimbursed by GoI as subsidy. Similarly, in case there is any delay in reimbursement of subsidy, the yield will be affected and so will be the subsidy.
  - (iv) The operating expenses incurred by the Corporation for managing the scheme are within the prescribed limits as per past experience. Common expenses are allocated to the referred schemes managed by the Corporation.

## **B. Query**

11. In view of the above, the matter is being referred to the Expert Advisory Committee of the ICAI to obtain its opinion on the following points in the context of presentation of financial statements of Pradhan Mantri Vaya Vandana Yojana (Plan 842):

- (a) In standalone financial statements:
  - (i) Whether the Corporation should continue with the present practice of neither to merge the financial statements of the scheme in standalone financial statements nor to make any disclosures in the financial statements of the Corporation, as this is the scheme launched by the GoI and the Corporation is only managing the scheme under the mandate given by the GoI to this effect; or
  - (ii) The financials of the Scheme should form part of the standalone financial statements as a separate business segment as per IRDAI Regulations and appropriate disclosure by way of explanatory notes in 'Notes on Accounts' of the standalone financial statements of the Corporation should be made; or
  - (iii) The Corporation should not merge financial statements of the scheme in standalone financial statements; however, the Corporation shall give

appropriate disclosures, explaining the details of the scheme, by way of explanatory notes on the financial statements of the Corporation; or

(iv) Any other methodology as suggested by the Expert Advisory Committee.

(b) In the consolidated financial statements:

(i) Whether the Corporation should continue with the present practice of neither to merge the financial statements of the scheme in consolidated financial statements nor to make any disclosures in the financial statements of the Corporation, as this is the scheme launched by GoI and the Corporation is only managing the scheme under the mandate given by the GoI to this effect; or

(ii) These statements should be considered in the consolidated financial statements and appropriate disclosure by way of explanatory notes in 'Notes on Accounts' of the consolidated financial statements of the Corporation; or

(iii) Corporation should not consolidate these financials in consolidated financial statements. However, the Corporation shall give appropriate disclosures, explaining the details of the scheme, by way of explanatory notes on the financial statements of the Corporation; or

(iv) Any other methodology as suggested by the Expert Advisory Committee.

### **C. Points considered by the Committee:**

12. The Committee notes that the basic issue raised by the querist relates to the accounting treatment and presentation of the Pradhan Mantri Vaya Vandana Yojana (PMVVY) scheme (hereinafter also referred as 'the Scheme'), an individual pension plan/scheme, in the separate and consolidated financial statements prepared in accordance with the Accounting Standards, issued by the ICAI. The Committee has, therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, the legal or regulatory implications of Pradhan Mantri Vaya Vandana Yojana, compliance with the formats or other accounting requirements prescribed under the LIC Act, Insurance Act, IRDA Regulations, intricacies of requirements of AS 17, 'Segment Reporting', compliance with any legal/regulatory requirements with regard to maintenance of separate accounts of PMVVY scheme, accounting for various expenses or income including subsidy/ reimbursement received under the scheme, etc. Further, the Committee has expressed its opinion only in the context of Pradhan Mantri Vaya Vandana Yojana in respect of which details have been provided by the querist and not in respect of other schemes or funds administered by the Corporation. The Committee notes that the query has been raised under Accounting Standards issued by the Institute of Chartered Accountants of India and therefore, the opinion expressed hereinafter is in the context of these standards only. The Committee has not looked into the regulatory or legal requirements including classification and implications arising under Income-tax Act, Insurance Act, IRDA Regulations, SEBI Regulations and LIC Act.

13. At the outset, the Committee notes the following significant features of Pradhan Mantri Vaya Vandana Yojana and the treatment accorded by the Corporation in respect of the Scheme:

- The Corporation is given the sole privilege to operate the Pradhan Mantri Vaya Vandana Yojana, which is a Government subsidised scheme and therefore, any difference between returns generated by the Corporation and assured returns under this scheme is borne by the GoI as a subsidy to the Corporation. Thus, the Government's financial liability is limited to the extent of the difference between market returns generated by the Corporation and the guaranteed return of 8% p.a. under the scheme.
- The *operating expenses incurred by the Corporation* for managing the scheme are reimbursed by the GoI, which are capped at 0.50% of the fund value. Reimbursement of subsidy is done on yearly basis by GoI;
- As per instructions from GoI, investment of the funds shall be as prescribed for Pension Fund by the Insurance Regulatory and Development Authority of India (IRDAI);
- Government of India has launched this scheme through the Corporation. IRDAI while giving its approval to the Corporation for launch of Pension scheme has instructed the Corporation as follows:
  - Separate fund shall be maintained, which is maintained and administered by the Corporation on behalf of the GoI;
  - No transfer of funds from the Policyholders' Fund (Life Insurance Fund) to this scheme shall be allowed, so that interests of the other policyholders are not affected by the implementation of this scheme;
  - Any deficit in funds under the scheme would have to be made good by the GoI as a part of the Scheme.
- The Corporation is complying with the above instructions.
- Annual *actuarial valuation is carried out by the Corporation* for preparing the financials of this Scheme. However, since this is a Government supported assured scheme, any shortfall between actual returns generated and assured returns, is reimbursed by the GoI as subsidy on yearly basis.
- All the investments under this scheme are made as per IRDAI Investment Regulations. These *investments are held in the name of the Corporation*, on behalf of the GoI. Investment decisions and performance of these investments are monitored by the Corporation.
- This scheme does not generate any profit or loss for the Corporation.
- *All the scheme policy documents are in the name of the Corporation*, as these schemes are launched by the GoI through the Corporation.

14. The Committee further notes the following from the 'Framework for Preparation and Presentation of Financial Statements' issued by the ICAI:

**“The Objective of Financial Statements**

12. The objective of financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful to a wide range of users in making economic decisions.”

“14. Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions; these decisions may include, for example, whether to

hold or sell their investment in the enterprise or whether to reappoint or replace the management.”

*“Substance Over Form*

35. If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with that which is apparent from their legal or contrived form. For example, where rights and beneficial interest in an immovable property are transferred but the documentation and legal formalities are pending, the recording of acquisition/disposal (by the transferee and transferor respectively) would in substance represent the transaction entered into.”

“49. The elements directly related to the measurement of financial position are assets, liabilities and equity. These are defined as follows:

- (a) An *asset* is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise.
- (b) A *liability* is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.
- (c) ...”

“51. In assessing whether an item meets the definition of an asset, liability or equity, consideration needs to be given to its underlying substance and economic reality and not merely its legal form. ...”

From the above, the Committee notes that the objective of financial statements is to provide information to a wide range of users in making economic decisions including showing the results of stewardship of management, or the accountability of management for the resources entrusted to it so that the users may make economic decisions. Since, in the extant case, the Corporation has been entrusted with the sole responsibility to operate and administer the Scheme and the resources thereunder by the Government of India, the Committee is of the view that apart from other considerations as discussed below, the objective of financial statements, should be an important consideration in deciding the issues raised by the querist. The Committee is of the view that the various stakeholders of the Corporation have a right to know, from its financial statements, the effects of various kinds of activities which are performed by an entity which entails use of its resources.

15. The Committee notes that the querist has described the Scheme as a Government subsidised Scheme which is operated, administered and managed by the Corporation. Also, Government subsidy is given only once a year for shortfall in return, if any, and for reimbursement of expenses, and for the rest of the year, it appears that the Government has no role in the operations concerning the scheme. As regards control over funds/assets under the Scheme, the Committee notes from the above that all the operating and financing decisions pertaining to the operations of the Scheme are taken by the Corporation at its discretion, such as, all investment decisions as to when, where and how to invest the funds under the Scheme (though within the specified norms), selling those investments and utilisation of the proceeds,

when and how to make the assured payments under the Scheme, etc. It has the free access to the funds/assets and can also prevent others from the access of these funds/assets. Thus, the investments are held by the Corporation in its own name and it has control over the same.

Further, it is stated in the facts that the financial liability of the Government is limited only to the extent of the difference between the assured returns and the actual returns which is provided as a subsidy indicating thereby that if there is any other financial liability towards policyholders, that will be borne by the Corporation. Also, certain financial risks, as per the terms of the Scheme, such as the excess of operating costs beyond the prescribed limit of 0.50% of fund value are also borne by the Corporation even though so far, as per the facts supplied by the querist, such situation has not occurred. Thus, although it is stated that the Government would bear any deficit arising from the Scheme, it appears that insofar as the aforesaid aspects are concerned, the liability of the Government is limited to the aspects so stated in the Scheme. Thus, although the Scheme would not generate positive returns or economic benefits to the Corporation, it appears that negative returns could flow to the Corporation.

16. The Committee further notes that the Framework states that in assessing whether an item meets the definition of an asset, consideration needs to be given to its underlying substance and economic reality and not merely its legal form. Thus, though in the extant case, considering legal form, the Corporation is managing funds on behalf of the GoI, in substance, the Corporation exercises complete operational and financial control over the funds/assets under the Scheme, as discussed above. Therefore, the Committee is of the view that the Corporation should recognise the funds/assets of the Scheme in its stand alone or separate financial statements. Similarly, since the Corporation has an obligation towards the GoI/policyholders towards the funds under the Scheme, including payment of timely assured returns/annuity to the policyholders, etc., the liability corresponding to the funds entrusted to it and in respect of the other payments should also be recognised in the financial statements. Also, the income and expenses from the Scheme should be recognised in its Statement of Profit and Loss. However, considering the peculiar nature of the assets/funds of the Scheme and the capacity in which the Corporation is acting, it should present the assets, liabilities, income and expenses, viz., the financials pertaining to the Scheme as separate line items in its financial statements along with appropriate detailed disclosures of the Scheme and necessary explanations thereof in the notes to accounts. Further, these should be segregated from the other assets, liabilities, income and expenses of the Corporation.

17. Furthermore, since the financials of the Scheme have already been incorporated in the standalone or separate financial statements as discussed above, the question of consolidating the same as a separate component in the consolidated financial statements does not arise.

18. The Committee is further of the view that since apparently, the risks and returns from the business under the Scheme are different from the life insurance business of the Corporation, the same may be identified as a separate reportable business segment in the financial statements of the Corporation, provided this segment meets the threshold criteria and other criteria as prescribed in AS 17, which the Corporation should evaluate.

#### **D. Opinion**

19. On the basis of above and subject to paragraph 12 above, the Committee is of the following opinion on the issues raised in paragraph 11 above:

- (a) The Corporation should include the financials of Pradhan Mantri Vaya Vandana Yojana scheme in its standalone or separate financial statements; however, considering the peculiar nature of the assets/funds of the Scheme and the capacity in which the Corporation is acting, it should present the assets, liabilities, income and expenses, viz., financials pertaining to the Scheme as separate line items in its financial statements along with appropriate detailed disclosures of the Scheme and necessary explanations thereof in the notes to accounts, as discussed in paragraphs 15 and 16 above.
- (b) Since the financials of the Scheme have already been incorporated in the standalone or separate financial statements, the question of consolidating the same as a separate component in the consolidated financial statements does not arise, as discussed in paragraph 17 above.

Further, the same may be identified as a separate reportable business segment in the financial statements of the Corporation, provided this segment meets the threshold criteria and other criteria as prescribed in AS 17, which the Corporation should evaluate, as discussed in paragraph 18 above.

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