

Public Works (1898) Department.

RAILWAY BRANCH.

G.O., No. 587-88 *By*

DATED *18th April 1898*

[Despatch Abstract.]

Provident Institution, S.L.R.
Ordered that the explanations of the Board on the proposed modifications of the rules of the — be forwarded for the orders of the Govt. of India.

Forwarded

No.	Department.	Date.	G.O.	No.	Department.	Date.
13-11-0	.					

G.O.	No.	Department.	Date.	G.O.	No.	Department.	Date.
—	1155	Rd —	21-9-98.				
—	1361	Rd —	3/11/98.				

South Indian Railway.

Copy of a letter, No. A/1653, dated 3rd August 1897,
from the Chief Auditor, South Indian Railway,
to the Agent, South Indian Railway.

Provident Institution Rules

I beg to invite your attention to the following points in connection with certain of the above Rules which appear to require amendment:-

2. Interest- Rule 16 defines Interest as the results of the Investment of the Institution after allowing for the expenses of management, or in other words, the balance of the Profit and Loss Account.

3. The most important result of investments is frequently the profit or loss arising from the difference between the book and Market values of the investments at the end of each Half Year, and as this adjustment is ordered in Rule 15, I assume that it is not intended to exclude this factor in determining the Interest for any half year.

4. Under the above assumption it will be seen that the Interest for any Half Year in which there has been a heavy fall in the price of Investments may be a loss and not a Profit.

5. It is laid down in Rules 20, 21, and 23 that the Interest to be allowed for the incomplete Half Year in which a Member

normally that
appreciation

BACK PAPERS.

No.	Department.	Date.	G.O.	No.	Department.	Date.
113-14 Rev	—	21-1-98				
407 Ry	—	12-3-98				

South Indian Railway.

South Indian Railway.

Copy continued.

retires, is dismissed, or dies shall be at the rate declared for the last preceding Half Year, which, as already shewn, may under certain circumstances, be a loss. Since Interest consists partly of the profit or loss arising on Investments during the Half Year, a Member leaving the service under any of these 3 Rules referred to would either receive a double benefit or double loss from the adjustment of Investments at the end of the previous Half Year.

6. There is another point of even greater importance in connection with these 3 Rules to which I would draw attention, and that is, that a Member leaving the service is to be paid the money standing at his credit in the Books of the Institution at the end of the Half Year last preceding his leaving the service, without reference to any difference which may have since occurred in the value of the Investments in which such money is placed.

7. I give below two hypothetical cases A & B in illustration of the application of the Rules as they stand and one C of the application of the Revised Rules, which I hope shortly to place before you.

8. On 31st December 1896 the results of the Investment of the moneys of the Institution after deducting the expenses of

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113-14	RD	21-1-98				

South Indian Railway.

South Indian Railway.

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Management was a loss of Rs.10,037, made up as under:-

Difference between the book and market values of the Investments of the Institution on 31st December 1896-----	} Loss Rs.22,553.
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Interest on Investments of the Institution and other receipts, less expenses of Manage- ment, etc.-----	} Profit " 12,516.
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Net Loss 10,037.

9. The accounts of the Members of the Institution at the end of the Year aggregated Rs.4,28,074 which was reduced to Rs.4,17,791 by the adjustment of the above mentioned sum of Rs.10,037 + Rs.246 the credit balance carried forward in the Profit and Loss Account.

10. The Interest declared for the Half Year ending 31st December 1896 was therefore a loss of Rs.2.34 % and the Investments of the Institution in 3% and 3 1/2 % Government Promissory Notes were written down to Rs.97-8-0 and Rs.99 per cent respectively.

11. Case A. Now, let us take the case of a Member who retired from the Company's service, we will say on the 15th May

262 of 20-1-1910. The total amount of appreciation

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South Indian Railway.

South Indian Railway.

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1897, whose monthly contribution was Rs.75/ per mensem and whose account in the books of the Institution on 31st December 1896 showed a balance in his favour of Rs.10,000.

12. His account would be made up thus:-

	Br.	Cr.
By Balance on 31st December 1896		10,000
To Interest on Rs.10,000 for 4 months at the rate declared for the previous Half Year (Rs.2.34%)	78	
By contributions for 4 months at Rs.75/ per mensem		300
To Interest on above Rs.300	2	
	80	10,300
By Balance	10,220	
Total	10,300	10,300

13. In May last the Investments of the Institution improved considerably in value, but in the above case the Member retiring not only does not benefit in any way by this improvement, but he is twice debited with the Minus Interest declared for the previous Half Year.

25 of 20-1890. This anomaly that

Copy continued.

14. Case B. The above is an illustration of a case in which the rules operate adversely to an individual, but if the conditions were reversed and say interest at the rate of 6% (due chiefly to a rise in the value of the Investments of the Institution) had been declared for the December Half Year, the Members' account would have been made up as under:-

By amount at credit on 31st December 1896	Rs. 10,000.
Interest at 6% for 4 months-----	" 266.
Contributions for 4 months at Rs. 75 per mensem-----	" 300.
Interest on above 4 month's contribution	" 3.
	" 10,569.

15. Now, assuming that the Investments of the Institution had gone down instead of up in value between 31st December 1896 and 1st May last, it is clear that the Member retiring can only be paid the full amount (Rs. 10,000) at his credit on 31st December at some expense to the rest of the Members of the Institution, as the Investments in which this amount was lodged on 31st December have since depreciated in value.

16. In addition to escaping his share of this loss, in this case the Member is paid Interest at the high rate declared

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for the previous Half Year.

17. In my opinion what is required is that Rule 16 should be altered so as to exclude the depreciation or appreciation in the value of the Investments of the Institution from the calculation of Interest and that Rules 20, 21, and 23 be amended so as to admit of adjustment being made of a proportion of any difference (profit or loss) there may be between the average value of the Investments of the Institution on the last day of the Half Year and of the month last preceding a Members retirement.

18. There would be no difficulty whatever in the practical application of these amended Rules, as I will now proceed to show.

19. Case C. Let us assume that the accounts for the Half Year ending 31st December last showed the following balances:-

To Investments Rs. 4,35,000. By Members Accounts Rs. 4,40,000

Cash 5,000

and that

the above Investments consisted of the following Securities:-

Accompaniment to the Agent's

No. 265 of 26-3-1908. M. C. S. as previously that

Agent.

Copy continued.

Nominal Value Rs.	Description of Investment.	Price % on 31st Decr. 96 Rs.	Amount Rs.
1,00,000	Government 3% Loan	97	97,000
3,00,000	" 3 1/2% "	99 3/4	2,99,250
31,000	Calcutta Port Trust 5% Loan	125	38,750
4,31,000	Total		4,35,000

20. The average value of the above Investments per cent of nominal value is Rs.100.928.

21. The Members retiring or otherwise withdrawing their accounts in January 1897 would be paid in full the amounts standing to their credit on 31st December 1896.

22. On 31st January, we will assume, that notice is given that 10 Members will retire in the next month (February), and that the following amounts stood at their credit at the end of the previous Half Year. Rs.

(a) -----546.
 (b) -----335.
 (c) -----972.
 (d) -----596.
 (e) -----1340.
 (f) -----1623.

Carried over 5412

Accompaniment to the Agent's letter

265 of 26-3-1898. M. G. S.

M. G. S.
 Agent.

BACK PAPERS.

No.	Department.	Date.	G.O.	No.	Department.	Date.
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South Indian Railway.

Copy continued.

	Rs
Brought forward-----	5412
(g)-----	1541
(h)-----	232
(i)-----	469
(j)-----	153
Total	7,807

23. The market rates of the abovementioned Investments we will say, stood on 31st January as under:-

Nominal value Rs.	Description of Investment	Price on 31-1-97 Rs	Amount Rs
1,00,000	Government 3% Loan	95 1/2	95,500
3,00,000	" 3 1/2 % "	101 1/2	3,04,500
31,000	Calcutta Port Trust 5% Loan	122	37,820
4,31,000	Total		4,37,820

24. The average value of the above Investments per cent of Nominal value is Rs.101.582% against an average on 31st December 1896 of Rs.100.928%

25. The difference represents a profit of .654 % which would be credited on the amounts mentioned in para 22 above and de-

TRICHINOPOLY,
24th March 1898.

Accompaniment to the Agent's letter

M. Mesure
for Agent.

26-3-1898. M. C.

Copy continued.

bited to Profit and Loss Account of the then Current Half Year.

26. Adjustments similar to the above could be made at the end of each succeeding month other than those which end a calendar Half Year.

27. As soon as possible after the close of each Calendar Half Year, the differences between the book and market values of all the Investments of the Institution should be struck and the resulting profit or loss together with the amounts debited or credited to Profit and Loss Account during the Half Year, in accordance with para 25 above, distributed over the accounts of all persons who were Members of the Institution at the end of the previous Half Year except, of course, those whose accounts were since closed on account of their death, retirement or other cause.

28. I am preparing and hope to send you in a day or two amendments of the rules particularly referred to in the foregoing and I will, at the same time, submit such amended and additional rules as are required by the Provident Funds Act No. IX of 1897.

29. I beg, in conclusion, that this matter may be placed before the Board for favour of very early consideration and orders.

AGENT'S OFFICE,
TRICHINOPOLY,

24th March 1898.

Accompaniment to the Agent's letter

No. 265 of 26-3-1898.

True copy.

W. L. Mesure
for Agent.

ENG. NO. 1 TO E. R. S. O. No. 1514 OF 1008
LETTER NO. 265 26. 3. 98
FROM A

No. 265

South Indian Railway Co., Ltd.,

AGENT'S OFFICE,

TRICHINOPOLY, 26th March 1898.

From

The AGENT,

SOUTH INDIAN RAILWAY,

To

The CONSULTING ENGINEER FOR RAILWAYS,

MADRAS.

Mr. J. H. D.
Sir,

With reference to G. O. N^o 407 dated 12th March 1898 communicating a copy of Government of India letter P. W. D. N^o 530 G. dated 25th February 1898, I have the honor to offer the following explanations in regard to the proposed modifications of the rules of the South Indian Railway Provident Institution.

2. By rule 16 the interest allowed on members accounts depends upon the "results of the investments of the money of the Institution". Frequently the most important factor affecting the results of the investments is the profit or loss arising from the difference between the book and market values of these investments. If this fluctuation between book and market values be considered a factor in determining interest, as would seem the intention under rules 15 and 16, rules 20, 21 and 23 would operate very unequally. According to these three rules the interest allowed for the incomplete half year in which a member retires is dismissed or dies shall be at the rate declared for the last preceding half year, so that in respect to the broken period a member may be credited with plus interest during a minus half year, or be debited with minus interest during a plus half year. It was with the object of avoiding this anomaly that

appreciation

appreciation or depreciation of the investments was proposed to be excluded in the determination of the rate of interest referred to in rule 16.

3. The alterations in rules 20, 21 and 23 were suggested in order that members leaving the service should participate in the fluctuating value of the investments during the broken period preceding retirement, dismissal, or death. It is hardly fair to allow withdrawing members the past appreciation of their balances in the Fund when the accounts of non-retiring members are debited with current depreciation, or to calculate their balances at their former depreciated amounts when the Institution's investments have increased in value. In the latter case the retiring members not only receive no bonus but are also mulcted on account of depreciation which no longer exists.

4. The remaining alterations in the Regulations of the Institution are necessary in consequence of the legalization of the Provident Funds Act, No. IX of 1897, and no remarks from me seem called for.

5. I enclose a copy of letter No. 1653 dated 3rd August 1897 from the Chief Auditor which deals very fully with the points raised by the Government of India including the assumed difficulty of working the proposed new rules.

I have the honor to be
Your most obedient servant

A. B. G. Melley
Capt R.R.
Agent

1 Enclosure

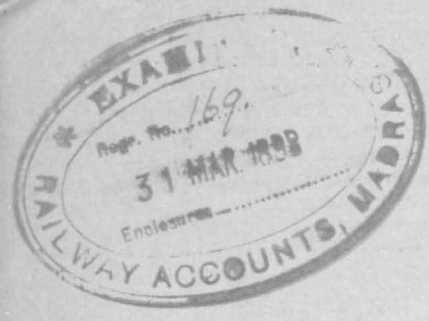
MAD

Dated
Received

No.
Enclosure

To
THE AGENT,
South Indian Railways
THE CONSULTING ENGINEER

Form No. 33.



OFFICE OF THE CONSULTING ENGINEER FOR RAILWAYS,
Madras, 30th March 1898

No. 915

OFFICE NOTE.

Letter from the Agent, South Indian Railway, No. 265, dated 26th March 1898, forwarded to the Examiner of Railway Accounts for favor of remarks.

for E. R.

EXAMINER'S REPLY.

Off forwarding letter
5/4/98

The Agents' explanation may be forwarded to the Govt of India, with reference to their letter No 530 of 25th February 1898

CR 1/4/98

86.7.7

184
 No. 587. Ry dated 18/4/98
 PROCEEDINGS OF THE MADRAS GOVERNMENT.

again
 READ the following

Progs: of the Madras } H.E. No. 407 Ry of 12 March 90
 Govt: P. W. Dept: -

Read also

Letter from the Agent } H.E. No. 265 of 26 March 90
 S. I. Ry.

The Government
 of India will be addressed.

H.E. No. 588 Ry of 18 April 1898.
 To

The Secy: to the Govt: of India
 P. W. Depto.

Sir.

With reference to
 your letter No. 530 S. of
 25th February 1898, I am
 directed to forward herewith
 the explanation ^{for form of rules}
~~from~~ the Agent S. I. Ry
 on the proposed modifica-
 tions of the rules of the
 Provident Institution

as embodied in his
letter with enclosures
No 265 of 26 March 1898.
(Copy enclosed). -

Cannot sign as under Secy

J. W.
R.

13/4/98

Documents accompanying:

Copy of letter from the
Agent L. L. L. No 265 of 26/3/98
with enclosures

W. L. L.