THIRD YEAR

ENGLISH

Part I

Financial Management

Business Entities and Investor Considerations Module

BUSINESS ENTITIES AND INVESTOR CONSIDERATIONS

This module is intended to assist students to learn something about business entities and foreign investor considerations in Serbia, i.e., foreign investors interested in doing business in Serbia. It does not exhaustively cover the subject but is intended to explain some of the important initial issues of concern to those planning to do business in Serbia.

BUSINESS ENTITIES

Foreign investors may establish a company or enterprise in the form of:

- **PARTNERSHIPS**: ***General Partnerships*** (*o.d.*) and ***Limited Partnerships*** (*k.d.*)
- **ASSOCIATIONS OF CAPITAL**: ***Limited Liability Company*** (*d.o.o.*), ***Joint Stock Company*** (*a.d.*)

Business entities in Serbia include:

General partnership (*o.d.*)	**Members**: 2 or more natural persons. **Investment**: No requirements for minimum/maximum contribution. **Contribution**: It can be money, property, rights, labour or services. **Characteristics**: All partners bear unlimited liability for the obligations of the partnership.
Limited Partnership (*k.d.*)	**Members**: 2 or more. **Investment**: No requirements for minimum/maximum contribution. **Contribution**: Contribution of the limited partner may be money, property or rights, but not labour or services. **Characteristics**: At least one member (the general partner) bears unlimited liability for the obligations of the partnership and the liability of at least one member (the limited partner) must be restricted to the value of his equity. Only an individual may be a general partner whilst the limited partner may be a natural person or a legal entity.
Limited Liability Company (*d.o.o.* or *LLC*)	**Members**: 1 to 30 (natural person or legal entity) **Investment**: Minimum dinar equivalent of USD 5,000 for the pecuniary part of the initial capital; minimum dinar equivalent of USD 5,00 for the pecuniary contribution of each member. This amount may be smaller if the contributions are privileged (shares from the privatisation). Minimum 50% of the founding capital and minimum 50% of the equity of each founder must be paid before incorporation. If the pecuniary capital exceeds USD 15,000 at least 20% of this amount must be paid before the incorporation. Equity is expressed in stakes. **Contribution**: The investment in a limited liability company may not be in the form of labour and services. **Characteristics**: The liability of members is up to the value of their investment. The bodies of the LLC are: managing director, board of directors (not obligatory in companies with less than 100 employees), supervisory board (not obligatory), and assembly of shareholders (when there is one founder, this function is performed by the sole founder).

Joint Stock Company (*a.d.* or *JSC*)	**Members**: 1 or more natural persons or legal entities formed simultaneously (buying all shares through incorporation), 2 or more for companies formed successively (issue of a prospectus intended for inviting third parties to subscribe). **Investment**: Initial capital is divided into shares of determined nominal value. Minimum CSD (*Convertible Serbian Dinar*) equivalent of USD 10,000 for the pecuniary part of the initial capital for companies formed simultaneously and USD 20,000 for the companies formed successively. Minimum dinar equivalent of USD 500 for the pecuniary contribution of each shareholder. The minimum par value of shares are privileged shares is dinar equivalent of USD 5. This amount may be smaller if the shares are privileged (shares from privatisation). A minimum of 50% of the founding capital of each shareholder must be paid before incorporation. If the pecuniary part of the initial capital exceeds USD 25,000 (simultaneous founding) and USD 50,000 (successive founding), it is necessary to pay at least 20% before incorporation. **Contribution**: Contribution of members may be money, property or rights but not in labour or services. **Obligations**: JSCs have the obligation to register in the Central Registry of Shares, as a condition of their trade if they are created as joint stock companies. **Characteristics**: The bodies of the JSCs are: General Manager, Board of Directors and Supervisory Body (obligatory if there are more than 100 employees) and the Assembly of Shareholders. The Assembly of Shareholders decides upon the most important issues in the Company, such as determining business policies, deciding on new emissions of shares, mergers and other relevant matters. Shareholders usually elect their representatives in the assembly by giving representative statements (the Securities Exchange Commission is authorised to prescribe the form and the contents of the proxy statement and to make a decision on the approval of that statement). The Board of Directors and the General Manager are the managing bodies in a company. The Supervisory Board performs the supervisory function and looks over the legality of activities in the company. At least one of the members of the Board of Directors and the Supervisory Board are elected by the employees of the company.

LIMITED LIABILITY COMPANY (LLC) vs. JOINT STOCK COMPANY (JSC)

In practice, foreign investors usually prefer to incorporate a Limited Liability Company (d.o.o.), because of its simple form and faster incorporation. Its advantages also include the following:

- Accession of new members is possible only upon consent of the already existing members of LLC.
- It may be financed by an additional inflow of cash (additional payments) without increasing share capital, as opposed to JSC.
- Increase in capital can be made without formal voting procedures and without supervision by the Securities Exchange Commission.
- Minimal share capital requirements of USD 5,000 as opposed to USD 10,000 for a JSC.

BRANCH OF A FOREIGN COMPANY

The Law on enterprises does not provide for the possibility of establishment of a branch office in Serbia. As such it is advisable to establish a legal entity to avoid complications associated with engaging in business without a locally recognised corporate form.

ESTABLISHMENT AND REGISTRATION OF A COMPANY

The only restriction concerning industry relates to acquiring majority stake in a company engaged in the production of and trade in armaments and military equipment.

REGISTRATION DOCUMENTS

The new company is established on the date of the commercial court registration. According to the Law on Enterprises, the necessary documentation is as follows:

- *Foundation Decision (Agreement);*
- *Draft of the Articles of Association (the Statutes)*

- *Decision on appointment of the Managing Director;*
- *Registration form filled in pursuant to the Foundation Decision (Agreement), Articles of Association and Serbian Law on Enterprises;*
- *Original Certificate of Incorporation, or a certified copy proving the status of the founder of the Serbian company;*
- *Internal Decision that it is intending to be the founder of a company (not required by law, but usually requested by the court);*
- *Lease agreement for the premises of the prospective company;*
- *Proof of ownership of the real estate by the landlord or the founder/company (not required by law, but usually requested by the court);*
- *Evidence of payment of the founding capital;*
- *Copy of the passport or personal identity (for Serbian citizens) of the future Managing Director of the company;*
- *An officially confirmed and stamped national form of the signature of the future Managing Director;*
- *Power of attorney for national lawyer notarized in accordance with origin country rules.*

NEW REGISTRATION PROCEDURES

The laws relevant to the new process of registration of companies have been adopted:

1. *The Law on Registration of Companies*
2. *The Law on the Agency for Registration of Companies*.

The former terminates the Commercial Courts' responsibility for registering companies and managing the Company Register.

The latter, which will come into effect on 1 January, 2005, except in regard to the registration of entrepreneurs (1 March, 2005), refers to the registration of companies which will be administered by the Agency for Registration of Companies.

The law requires the following entities/persons to apply for the registration with the Agency:

1. Entrepreneurs
2. General Partnerships
3. Limited Partnerships (k.d.)
4. Limited Liability Companies (d.o.o.)
5. Joint Stock Companies (a.d.)
6. Co-operatives and co-operative associations
7. Other companies required to register by Law.

The Register maintained by the Agency will contain the following information about each registered body:

- *Foundation, merging, and termination details;*
- *Status changes and changes related to organisation;*
- *Information relevant to legal transactions;*
- *Information relating to bankruptcy proceedings;*
- *Other information required by law.*

This Law also introduces the obligation to submit annual financial reports in accordance with the Law on Accounting. This law comes into effect on 1 January, 2006.

THE LAW ON THE AGENCY FOR REGISTRATION OF COMPANIES

The registration of companies will be administered by the Agency for Registration of Companies.

The Agency is responsible for the following registers:

- *The register of companies;*
- *The register of pledges over movables and rights;*
- *The register of financial leasing;*
- *Other registers established by Law.*

JOINT VENTURES AND STRATEGIC PARTNERSHIPS

There are no restrictions to joint ventures and strategic partnerships. The choice depends on the terms established by the contractual parties. The amount of the investment and the percentage of share ownership are set out in a Memorandum of Association.

REPRESENTATIVE OFFICE

Any foreign individual or entity, alone or together with another foreign individual or entity, may open a representative office. The representative office is an integral part of the concerned foreign person and, therefore, does not have the status of a legal person, but is obliged to operate in conformity with all national laws and regulations. The representative office performs operations on the instructions given by the Founder(s).

A representative office cannot perform business activities in the field of armaments and military equipment. It is established to survey the commercial, financial, banking and insurance segments of the market, as well as to perform the preliminary and preparatory operations to the execution of contracts, as well as to represent the foreign entity engaged in such transactions.

The competent authority is now the Serbian Ministry of International Economic Relations, approving applications, as well as holding the registry of representative offices. (Formerly, it was the Federal Ministry, which ceased to exist.)

To start the process of registration, the Founder submits an application with all the necessary documents. The application should include the following:

- *Name and registered address of Founder;*
- *Name and registered address of representative office;*
- *Description of business;*
- *Names of directors;*
- *Number of employees.*

The Ministry decides on the request for registration within 30 days of receipt of the application. The representative office may perform the operations which it has been registered for.

All representative offices are required to submit annual reports (by 31 March of the following year) describing their activities and number of employees.

UNIT 1 ON FINANCE AND FINANCIAL MARKETS AND INSTITUTIONS IN GENERAL

WHAT IS MEANT BY THE TERM FINANCE IN ITS BROADEST SENSE?

In contrast to *finances*, referring to money available to a person, an organisation or a country, *finance* in its broadest sense involves the practice of manipulating and managing money. It is the branch of economics concerned with providing funds to: (1) individuals - known as *personal* or *family finance*, which deals primarily with family budgets, the investment of personal savings, and the use of consumer credit; (2) business - known as *business finance*, which has to do with the raising and managing funds by business organisations; and (3) governments - known as *public* or *government finance*, which is concerned with the financing of the goods and services provided by national and local government through taxation and other means.

FINANCE IS THE PROCESS OF CHANNELLING FUNDS FROM SAVERS TO USERS

To serve the needs of these areas jointly and separately there also exists an elaborate structure of financial markets and financial institutions. Consumers, business firms, and governments often do not have the funds available to make expenditures, pay their debts, or complete other transactions and must borrow or sell equity to obtain the money they need to conduct their operations. On the other hand, savers and investors accumulate funds which could earn interest or dividends if put to productive use. These savings may accumulate in the form of savings deposits, savings, or pension and insurance claims. When loaned out at interest or invested in equity shares, they provide a source of investment funds.

FINANCIAL INTERMEDIARIES

Financial institutions that channel funds in the form of credit, loans, or invested capital from savers to users are called *financial intermediaries* and may, *inter alia*,

include: commercial banks, finance houses, savings banks, insurance companies, pension funds, etc.

Commercial banks, which are privately owned banks, provide a wide range of financial services both to the general public and to firms. The principal activities include operating current accounts, receiving deposits, taking in and paying out notes and coin, and making loans. The additional ones include the supply of foreign currency, the purchase and sale of securities, insurance, etc. *Finance houses*, many of which are owned by commercial banks, provide finance for hire-purchase agreements. *Savings banks* specialise in setting up savings accounts for relatively small deposits. *Insurance companies* provide a variety of insurances and are holders of large stocks of assets that make them major participants in the market for government bonds, equity shares and mortgages since the premiums for policies are paid before claims occur. *Pension funds* refer to state and private pension contributions invested to give as high a return as possible to provide the funds from which the pensions are paid.

FINANCIAL MARKETS: MONEY MARKETS AND CAPITAL MARKETS

Financial markets on the other hand include money markets and capital markets. The market in which short-term loans are arranged is called *money market* and its participants may include governments, government institutions and organisations, local authorities, corporations, other institutions, and individuals.

MONEY MARKET INSTRUMENTS

Money market instruments include treasury bill, banker's acceptance, certificate of deposit, and commercial paper.

In the U.S., *treasury bill* is an obligation of the U.S. government, with a maturity of about 90 days but bearing no interest, and sold periodically at a discount on the market. In the UK, it is issued by the Bank of England, to be repaid within three months, with no interest. *Banker's acceptance* is the bill drawn against and accepted by a bank, commonly done when the buyer is not a widely known firm, in contrast to a bill of exchange which is called a trade acceptance if accepted by the buyer of the goods. *Certificate of deposit* is a receipt from a bank acknowledging the deposit of a sum of money. Among the common types are *demand certificates of deposit*, which

are payable on demand, without drawing interest, and *time certificates of deposit*, which bear interest and are payable on or after a specific date. *Commercial paper* consists of well-established firms' promissory notes sold primarily to other business firms, insurance companies, pension funds, and banks. Commercial paper is issued for periods varying from two to six months.

CAPITAL MARKET

Capital market is a market in which long-term capital is raised by industry and commerce, the government and local authorities. The money comes from private investors, insurance companies, pension funds and banks. Stock exchanges or Stock Markets are also part of the capital market in that they provide a market for the shares and *loan stocks* that represent the capital once it has been raised. In other words, *stock exchange* is a market for the sale and purchase of securities, in which the prices are controlled by the laws of supply and demand.

1. READING FOR COMPREHENSION

(a) Answer the below given questions.

1. Differentiate finances from finance.
2. State the three broad areas in finance and explain what they are concerned with.
3. Who from and in what way do consumers, business firms, and governments obtain funds to conduct their operations?
4. State the forms in which savings may accumulate.
5. What is meant under the term financial intermediaries? State some of them.
6. What do financial markets include?
7. Define the term money market and identify basic money market instruments.
8. What is meant under the term capital market?

(b) Decide if the following statements are true or false and correct the false ones.

	T	F
1. Finances in its broadest sense refer to money available to a person, an organisation or a country.	☐	☐
2. Three broad areas in finance include personal or family finance, business finance, and public or government finance.	☐	☐
3. Financial markets channel funds in the form of credit, loans, or invested capital from savers to users.	☐	☐
4. Money market instruments include treasury bill, banker's acceptance, certificate of deposit, and commercial paper.	☐	☐
5. Money market refers to the market in which short-term loans are arranged.	☐	☐
6. The market in which long-term capital is used by industry and commerce, government and local authorities is called capital market.	☐	☐

(c) Fill in the missing words by choosing from the below given box.

ordinary share ***personal finance*** ***finances*** ***equities*** ***bill of exchange***
business finance ***stock exchange*** ***public or government finance***
finance ***negotiable instruments*** ***stocks and shares*** ***taxation***

1. The term …… refers to securities issued by companies.
2. ……..…… has to do with the raising and managing funds by business organisations.
3. A market for the sale and purchase of securities, in which the prices are controlled by the laws of supply and demand is called ……..…….. .

4. ……..…… is a levy on individuals or corporate bodies by central or local government in order to finance the expenditures of that government.

5. Money available to a person, an organisation or a country refers to …… .

6. ……..…… is concerned with the financing of the goods and services provided by national and local government through taxation and other means.

7. …… deals primarily with family budgets, the investment of personal savings, and the use of consumer credit.

8. The term ……..…… refers to the ordinary shares of a company, especially those of a publicly owned company.

9. …… is a fixed unit of the share capital of a company that provides a profit (dividend) related to the total profits of the company.

10. ……..…… is a signed document, such as a cheque, that orders a person or an organisation, such as a bank to pay a fixed sum of money on demand or on a certain date to the person specified

11. ……..…… is a document that can be exchanged for goods, money, etc., such as cheques, banknotes and bills of exchange.

12. …… is a system that includes circulation of money, the granting of credit, the making of investments, as well as the raising of funds or money.

(d) Find the mistakes in the below given passage.

Business finance or the rising and managing of funds by business organisations is activities crucial for the success of any firm and is usually the concern of managers close with the top of the organizing structure of a firm, although some routine aspect of financial operations may be carried out by lower-level staff. Financial managers are typically responsible in planning and analyses. In very largely firms major financial decisions are often make by a finance committee. In small firms, the owner-manager usually conduct the financial operations. Many of the day-to-day work of business finance is conducted by lower level staff; their work includes handing cash recipes and disbursements, borrowing from commercial banks at a regular and continuing basis, and formulating cash budgets.

Financial decisions affect both the profitability or the risky of a firm's operations. An increase of the cash position, for instance, reduces risk; but, because cash is not an earning asset, converting other type of assets to cash reduces the firm's profitably. Similarly, the use of additionally debt raises the profitability of the firm, but more debt means more risk. Strucking a balance - between risk and profitability - that will maintaining the long term value of the firm's securities are the task of finances.

(e) Fill in the blanks in the below given sentences by using words/expressions from the box. Find the words/expressions in the text which have the same meaning.

to meet the requirements ***lent at*** ***rewarding*** ***due for payment in*** ***in a general sense*** ***below the nominal price*** ***yield*** ***conclude*** ***includes*** ***to run*** ***at hand*** ***to get*** ***earning*** ***a highly-developed*** ***money they owe*** ***amass***

1. ……, finance …… the practice of manipulating and managing money.
2. …… of these areas jointly and separately there also exists …… structure of financial markets and financial institutions.
3. Consumers, business firms, and governments often do not have the financial resources …… to make expenditures, pay ……,

or …… other transactions and must borrow or sell equity to …… the money they need to …… their operations.

4. On the other hand, savers and investors …… funds which could …… interest or dividends if put to …… use.
5. When …… interest, they provide a source of investment funds.
6. Treasury bill is an obligation of the U.S. government, …… about 90 days but …… no interest, and sold periodically …… on the market.

2. MATCHING EXERCISES

Match the terms on the left-hand side with the definitions on the right-hand side

(a)	Certificate of deposit	(1)	Privately owned banks that provide a wide range of financial services both to the general public and to firms.
(b)	Securities	(2)	The bill drawn against and accepted by a bank, commonly done when the buyer is not a widely known firm.
(c)	Finance house	(3)	An obligation of a government, with a maturity of about 90 days but bearing no interest, and sold periodically at a discount on the market.
(d)	Commercial paper	(4)	A receipt from a bank acknowledging the deposit of a sum of money. Among the common types are demand certificates of deposit and time certificates of deposit.
(e)	Treasury bill	(5)	Financial assets including shares and government stocks.
(f)	Banker's acceptance	(6)	Organisations, many of which are owned by commercial banks, that provide finance for hire-purchase agreements.
(g)	Commercial banks	(7)	It consists of well-established firms' promissory notes sold primarily to other business firms, insurance companies, pension funds, and banks.

3. PREPOSITIONS

Supply the missing prepositions

Tax law is the part …… financial law. Only the central or local government has the right to levy a tax …… individuals, corporations or assets. Taxes may be split …… classes …… taxpayers, each having its own rules …… specific deductions, calculations …… income, etc. Tax may be levied …… the form …… income tax - which is generally imposed …… an annual basis …… the income …… individuals; estate tax or death tax – which is imposed …… the right to transfer property …… inheritance and assessed …… the net value …… a decedent's estate before distribution …… the heirs; sales tax – imposed as a percentage …… the price …… goods usually paid …… the buyer, but the seller is responsible …… collecting and remitting the tax …… the appropriate authorities; corporate income tax - which is concerned …… the tax …… income …… companies, etc.

4. THE TENSES

Fill in the blank spaces in the *Public or Government Finance* text with correct verb forms.

The importance of public or government finance ……..…… (INCREASE) sharply in Western countries since the Great Depression of the 1930s. As a result, taxation, public expenditures, and the nature of the public debt now typically ……..…. (EXERT) a much greater effect on a nation's economy than previously. Governments ……..…. (FINANCE) their expenditures through a number of different methods, by far the most important of which is taxes,

which …… (MAY LEVY) in the form of income tax, gift tax, estate tax, inheritance tax, etc. Government budgets seldom ……..……. (BALANCE), however, and in order ……..…. (FINANCE) their deficits governments must borrow, which in turn ……..……. (CREATE) public debt. Public debt …… (DISTINGUISH) from private debt, which …… (CONSIST) of the obligations of individuals, business firms, and nongovernmental organisations. The level of public debt …… (VARY) from country to country, from less than 10 percent of the GNP to more than double the GNP. Public borrowing generally …… (BELIEVE) to have an inflationary effect on the economy and for that reason often …… (RESORT) to in recessionary periods …… (STIMULATE) consumption, investment, and employment.

Review and discussion questions

It is important to note that after a relatively slow growth period of 3.0% in 2003, most of the available data suggests economic activity in Serbia has picked up noticeably. Industrial production is recovering having grown 7.7% in July and 7.6% in the first seven months of 2004. This compares favourably to the same period last year when industrial production had fallen 3.6%.

Private consumption also appears to be picking up with real net wages up 15% in the year to July 2004. Credit activity has increased 11.8% in the first eight months of the year, which, however, represents a slowing of credit activity. Unemployment remains very high at 31.9% in July. Nonetheless, the extensive grey economy in Serbia and the extensive private remittances the country enjoys each year provide ample evidence that an increase in private consumption is underway.

While data on investment activity is more difficult to come by, imports of capital goods do point to an increase in investments.

However, inflation has been on a downward trajectory for a number of years and ended last year in single digits, at 7.6%, for the first time in over two decades. This year's inflation has increased somewhat coming in at 9.9% in August and averaging 8.4% for the year to date. In 2004 inflation will exceed 11%. While higher oil prices have played a role in pushing inflation up, large wage increases, which have again exceeded productivity gains have also contributed to higher inflation in 2004. Next year will see the long-awaited introduction of Value Added Tax (VAT), which will generate a one-off inflation impact and electricity prices will again be increased.

The National Bank of Serbia (NBS) tightened the monetary policy in August and, in agreement with the IMF, is pursuing a policy of maintaining a stable real exchange rate. Given Serbia fragile external position, there remains a risk that the EUR/CSD (*Convertible Serbian Dinar*) will come under further depreciation pressure in the medium term.

The foregoing brings us to the *investor considerations*. In order to discuss the bellow given questions, you will need to know something about the extent to which the government is committed to stimulating foreign investments and restrictions on foreign ownership and privatisation law, for the reason of which we offer some guidelines.

1. For the purpose of developing a more favourable environment for foreign investments, several important economic laws have been passed although much remains to be done. The most important new pieces of legislation regulate companies, bankrutpcy procedure, financial markets, securities, transfer of capital, etc. The tax regime for foreign investors is an additional stimulus.

2. According to the Law on Foreign Investments, passed in 2002, by which law foreign investments in Serbia are regulated at the level of the State Union of Serbia and Montenegro, a foreign investor is:

   - a foreign entity whose seat is abroad;

   - a foreign natural person; and (c) a national of Serbia and Montenegro who is resident abroad for a period exceeding one year.

3. Accordingly, a foreign investment is:

   - investment in a domestic enterprise, granting a foreign investor a stake or shares in the initial capital of that enterprise; and

- acquisition of any other property right in the sense of a realisation of a business interest in Serbia and Montenegro.

4. The *contribution* of a foreign investor may be in the form of foreign currency, contribution in kind, intellectual property rights, securities, and any other property right but only if the funds, in accordance with the foreign exchange operations regulations, may be transferred abroad, including remittance of any profit.

5. In reference to *legal status*, a foreign investor is guaranteed *national treatment*, which means that any legal entity and natural persons who are investing in Serbia and Montenegro enjoy full legal security and protection, equal to those of domestic enterprises. In other words, the legal security of investments is guaranteed. However, registration in the Commercial Court is required.

6. As to *restrictions*, foreign entities are not allowed to own a majority interest in companies or enterprises engaged in the production or sale of armaments or located in special geographical zones (e.g. border zones, national parks). Investments regulated by specific laws include banks, insurance companies, stock exchanges, stock broking companies and free trade zone managing companies.

7. In *foreign exchange* related areas, hard currency is traded in the foreign currency market between the National Bank of Serbia and authorised commercial banks. Companies established by foreign investors are considered domestic companies and their foreign exchange operations are subject to the Foreign Exchange Law, as domestic companies.

8. This brings us to *privatisation*, the key objective of which is to attract foreign investments. There are 7,500 socially owned enterprises in Serbia, over 200 of which will be privatised by tender. The decisive factors for winning the tender is the proposed investment, and the social and ecological programmes offered. The Serbian Agency for Privatisation (Agency) and the Tender Committee conduct tenders, while auctions are organised solely by the Agency.

9. The privatisation process in Serbia, defined by the Law on Privatisation (RS *Official Gazette*, No.. 38/01 and 18/03) is mainly based on the model of direct sale whereby up to 70% of the shares in a firm are sold either in tender or in public auction to a private buyer. The process comprises three phases: selection of a consultant; preparation of tender documentation; and sale.

10. Out of 773 enterprises that were offered for auction *via* auction proceedings in 2003, 674 were successfully sold, which is more than three times the number of the enterprises auctioned off in 2002 (which was 205). The total sale price realised was EUR 274 million, with additional commitments of EUR 61.7 million made by the buyers.

11. It is anticipated that 10 largest state-owned enterprises undertake a restructuring process: Electric Power Industry of Serbia (EPS), *NIS* – Petroleum Industry of Serbia, Railway Transport Company (ŽTP), PTT post, Telecom, Srbijašume, Srbijavode, Yugoslav Airlines JAT, and Belgrade Airport. The largest state-owned companies, including EPS and NIS will be privatised last, but not before 2005.

Questions

1. There are evidently a number of risks to the Serbian economy both in the domestic and international spheres? Do you expect Serbian economy to grow this year nevertheless? Explain and support your position as to the economic situation and outlook in Serbia.
2. State your opinion on the investment climate given the geographical position and the low cost of labour in Serbia.
3. However, there are also some restrictions imposed on foreign investors. Do you happen to know what they are? If you don't, look for them and list them.
4. Can an individual bring an unlimited amount of hard currency into Serbia if it is declared to the customs authority? What will happen if the amount is not declared? Can the declared amount be taken out of Serbia? Explain.
5. Is the Law on Privatisation in Serbia considered among the best in transition countries? Support your position.
6. What about concessions? Bearing in mind the Law on Concession (*Official Gazette of RS*, No. 55/2003), may a foreign investor be granted a concession for the use of natural resources or providing goods in general use or performing activities of general interest?

Enhancing your writing skills

Translate the below given passage from Serbian into English language.

Većina ljudi ne ulazi u poslovanje na finansijskom tržištu neposredno, već preko finansijskih posrednika ili posrednika. U makroekonomiji, u ulozi finansijskih posrednika najčešće srećemo komercijalne banke. Kada ljudi ulože novac u banku, banka ta sredstva koristi za davanje zajmova kupcima nekretnina za hipoteke, studentima za plaćanje školarine, preduzećima i svima kojima su potrebni novčani zajmovi. Lice koje ima više novca može, naravno, sâmo da traži zajmodavca i tako zaobiđe posrednika. Isključivanjem posrednika, štediša može da ostvari veći profit. Pa zbog čega toliko mnogo ljudi onda koristi finasijske posrednike?

Finansijski posrednici svojim korisnicima nude dve značajne prednosti. Prvo, pozajmljivanje preko posrednika je manje rizično od neporednog pozajmljivanja. Glavni razlog za smanjeni rizik jeste taj što finansijski posrednici daju veliki broj zajmova, tako da čak i ako neki od njih ne budu otplaćeni, gubici će velikim delom biti nadoknađeni sigurnom otplatom drugih zajmova.

Druga prednost koju finansijski posrednici nude štedišama jeste likvidnost. Likvidnost predstavlja mogućnost brzog pretvaranja sredstava u potrošan oblik – novac. Finansijski posrednik neće biti u stanju da obezbedi likvidnost samo u slučaju da štediše sa velikim ulozima požele da podignu svoje depozite u isto vreme.

Mada posredno, finansijski posrednici pomažu velikom broju ljudi da uzmu učešća na finansijskim tržištima. Iako ovi posrednici predstavljaju važnu funkciju u makroekonomiji, oni su obično veoma stabilni i sporo se menjaju.

Translate the below given passage from English into Serbian language.

Country risk is the risk of investing foreign capital into a certain country. There are many methodologies of evaluating country risk and various institutions deal with country risk, such as *Euromoney*, *Beri-index*, *Institutional Investor*, *Business International*, *World Bank Group*, *International Monetary Fund*, etc.

Beri-index is the methodology which is most frequently in use. Crucial elements for evaluating country risk of certain country are political system, economy, finance,

and elements of nationalism. Each of these aforesaid elements provides 25 points which in general makes maximum of 100 points. Evaluation is as follows:

1.	0-40 points	no basic elements for investing capital.
2.	41-55 points	extremely high risk for investing.
3.	56-70 points	relative risk.
4.	71-85 points	low risk.

On the other hand, institutional investor evaluates credit potential of various countries according to the statements of leading 75-100 world banks. Business international evaluates a range of some 70 countries according to 56 factors which are related with operating of corporations. Statements are made for the following five-year period. These methodologies are widely accepted among corporations all over the world. The final decision lies on corporations, i.e. they accept the risk to invest or not to invest in a certain country.

Our country is still a very unstable area for foreign investments. Investors hesitate to invest in our country because of a number of reasons. First of all there is no protection of private property and personal rights. Also, there is an extremely high level of criminal and corruption, including unstable political relations with Kosovo and Montenegro, unarranged accounting standards, and lack of protection of environment. However, our country is able to improve its negative position by providing a stable political system, intensive cooperation with EU, repaying old debts, stability of economy and safety of economy.

UNIT 2 BANKS AND THE BUSINESS OF BANKING

BANKS

Bank is an institution that deals in money and its substitutes and provides other financial services. Banks accept deposits and make loans and derive a profit from the difference in the interest rates paid and charged, respectively.

There are many banks in the system of a country which consists of various financial institutions with the Central Bank at the top. However, it makes no great difference whether they are large or small because their services are basically very similar. Many banks are commercial or business banks.

Some banks have the power to create money. Some deal with retail banking, i.e., with individual customers. They perform all the banking services for the clients in the country and their services are in domestic currency of the country. Their clients may include students, working or even retired people. There are different accounts that banks offer: the current account, i.e., the cheque account, as well as the deposit account for making the money grow steadily and the giro account for receiving extra payments and some other more specific accounts. If the clients are businessmen or institutional customers, then the bank must carry out all the transactions referring to international payments. For that purpose the bank must be authorised by the central bank to perform banking transactions with foreign countries and in foreign currency or currencies.

THE BUSINESS OF BANKING

Therefore, the business of banking consists of borrowing and lending. As in other businesses, operations must be based on capital, but banks employ comparatively little of their own capital in relation to the total volume of their transactions. In the United States capital accounts also have a legal significance, since the laws limit the proportion of its capital a bank may lend to a single borrower. Similar arrangements exist elsewhere.

The principal types of banking in the modern industrial world are central banking and commercial banking.

CENTRAL BANKING

The foremost monetary institution in a market economy is the central bank. These are usually government-owned institutions and are responsible to the national interest. Most central banks perform the following functions: They serve as the government's banker, act as the banker of the banking system, regulate the monetary system for both domestic and international policy goals, and issue the nation's currency.

As banker to the government, the central bank collects and disburses government income and receipts, manages the issue and redemption of government debt, advises the government on all matters pertaining to financial activities, and makes loans to the government.

As banker to the nation's banks, the central bank holds and transfers banks' deposits, supervises their operations, acts as a lender of last resort, and provides technical and advisory services. Monetary policy for both domestic and foreign purposes is implemented and, in many countries, decided by the national banking authorities, using a variety of direct and indirect controls over the financial institutions. Coins and notes that circulate as the national currency are usually the liability of the central bank.

COMMERCIAL BANKING

A commercial banker is a dealer in money and in substitutes for money, such as cheques or bills of exchange. The banker also provides a variety of other financial services. The basis of the banking business is borrowing from individuals, firms, and occasionally governments - i.e., receiving "deposits" from them. With these resources and also with the bank's own capital, the banker makes loans or extends credit and also invests in securities. The banker makes profit by borrowing at one rate of interest and lending at a higher rate and by charging commissions for services rendered.

A bank must always have cash balances on hand in order to pay its depositors upon demand or when the amounts credited to them become due. It must also keep a proportion of its assets in forms that can readily be converted into cash. Only in this way can confidence in the banking system be maintained. These are the essentials of deposit banking as practiced throughout the world today.

THE ESSENTIAL CHARACTERISTICS OF THE BUSINESS OF BANKING

The essential characteristics of the banking business may be described within the framework of a simplified balance sheet. A bank's main liabilities are its capital

(including reserves and, often, subordinated debt) and deposits. The latter may be from domestic or foreign sources (corporations and firms, private individuals, other banks, and even governments). They may be repayable on demand (sight deposits or current accounts) or repayable only after the lapse of a period of time. A bank's assets include cash (which may be held in the form of credit balances with other banks, usually with a central bank but also, in varying degrees, with correspondent banks); liquid assets (money at call and short notice, day-to-day money, short-term government paper such as treasury bills and commercial bills of exchange, all of which can be converted readily into cash without risk of substantial loss); investments or securities (substantially medium-term and longer term government securities - sometimes including those of local authorities); loans and advances made to customers of all kinds, though primarily to trade and industry (in an increasing number of countries, these include term loans and also mortgage loans); and, finally, the bank's premises, furniture, and fittings (written down, as a rule, to quite nominal figures).

1. READING FOR COMPREHENSION

(a) Answer the below given questions.

1. What do banks deal in? Explain.
2. Explain the following statement: "It makes no great difference whether banks are large or small because their services are basically very similar".
3. Define the term retail banking. Do you happen to know the term with the opposite meaning? If you do not, look for it and explain it.
4. Define the business of banking.
5. State the principal types of banking.
6. Define central banking and the role of the National Bank of Serbia, as well as its main functions.
7. Define commercial banking.
8. Describe the essential characteristics of the banking business within the framework of a simplified balance sheet.

(b) Decide if the following statements are true or false and correct the false ones.

	T	F
1. Bank is an institution that deals only in money and provides other financial services.	☐	☐
2. The principal types of banking in the modern industrial world are commercial banking and central banking.	☐	☐
3. All banks also have the power to create money.	☐	☐
4. The basis of the banking business is lending to individuals, firms, and occasionally governments.	☐	☐
5. A bank must always have cash balances on hand in order to pay its depositors upon demand or when the amounts credited to them become due.	☐	☐
6. Every bank can perform international banking transactions without any restrictions.	☐	☐
7. A bank's main liabilities are its capital (including reserves and, often, subordinated debt) and deposits.	☐	☐
8. Financial intermediaries can create money as the commercial banks do.	☐	☐

(c) After reading the text choose five sentences which best summarise the below text.

If you have some capital it is easy to make more of your money. How?! Ask your banker and you will see how! Every bank will help you. Especially your bank. Why? Simply it's the bank's interest to help you increase your capital so that the bank may have more profit from it as well.

Many banks have many different ways of increasing the capital they hold for their clients in various accounts. One of the ways is by helping them to make operations through which the clients will make profit and the bank will have its share of the cake.

The other is by placing the free portion of the capital on money market. These are not the only ways although the goal is always the same.

What helps the client decide which bank will be his own bank may differ from person to person or from a company to company. Some customers will decide on an old bank with good reputation even if its interest is rather low. Other clients will approach the banker who offers higher interest. Some will choose the bank which offers more various facilities and has a better network of correspondents in the world.

No matter what the clients try to find in their banker's services, the bankers always try to offer better services better services to clients from those that other banks may offer. No banker can be perfectly happy with the services he can provide to customers. It is because the clients' needs are changing all the time and bankers must offer better services to them before other banks attract their customers with such services.

Five Points

1. *Only some banks will help clients make more of their capital.*
2. *Every bank will help the customer increase the capital he/she holds.*
3. *There are many other ways to earn more from the client's capital.*
4. *It's one of the bank's ways to earn from the customer's capital.*
5. *All banks have the same target: to make more profit but they may reach the target in different ways.*
6. *Banks have different goals and they reach them in different ways.*
7. *All customers try to find the same thing in their bank: higher interest rate than with other banks.*
8. *Customers try to find different things in their banks.*
9. *If a bank's services are very good, the banker may be perfectly happy.*
10. *The banker can never be sure he is offering the best possible services to customers.*

(d) Read the application form carefully and tick the right answer.

You can open your account by completing and mailing the application form together with your cheque (using the address quoted) – or by taking it to any NatWest branch

NatWest
SAVER SERVICE

Monthly Income Account

To: National Westminster Bank PLC
Saver Service,
25 h Floor, Alpha Tower,
Suffolk Street, Birmingham B1 1UL

Please open a Monthly Income Account.
*I/We enclose my cheque payable to National Westminster Bank for £…… (minimum £2,000)
BLOCK CAPITALS PLEASE
Surname Mr/Mrs/Miss/Ms . . . . . .
Forename(s) . . . . . .
Address . . . . . .
. . . . . Post Code . . . . . .
Please pay the monthly interest to:
Name. . . . . .
Name of Bank (or Giro) . . . . . .
Branch address in full. . . . . .
Account No. | | | | | | | | |
If you are not ordinarily resident in the U.K. for tax purposes please tick box ☐
It is necessary for you to sign an appropriate declaration to confirm your status and return it with your application. It can be obtained from any of our branches.
I/We agree to maintain a minimum balance £2,000 and to give one month's notice of withdrawal.
I/We understand that the rate of interest may be varied at the discretion of the Bank. Interest is payable at the end of the month including when the capital is withdrawn.
I/We authorise you until further notice to accept the signature of any* one of us or the survivor as acknowledgement of withdrawals.
*For monies held in trust the signatures of all trustees are required.
Any published rates of interest will be paid subject to Composite Rate of Tax regulations. If you believe you are not subject to CRT, please contact your branch manager or the Saver Service Centre.
Signature_____ Joint Account/ Second Signature _____

1. What is this form used for?

(a) It is the form used for withdrawing money from a bank account.

(b) It is used when clients wish to open a deposit account.

(c) It is used when clients come to the bank to open a current account.

(d) It is used when clients wish to open a special account with their bank.

2. How can the clients use this form to open the account?

(a) The clients can complete the form in the bank and give it to the clerk.

(b) The clients can only send this form by mail to their bank.

(c) The clients can choose: either to take the completed form to the bank or to send it by mail.

(d) The clients must complete this form in the clerk's presence only.

3. How much deposit does the bank require for opening this account?

(a) At least GBP 2,000.

(b) Maximum GBP 2,000.

(c) The amount depends on the customer.

(d) Any amount the customer may wish to deposit.

4. What balance must the customer keep and when can he make withdrawals?

(a) There is no minimum fixed balance and the client is free to make withdrawals when he wishes.

(b) The customer must promise to keep at least GBP 2,000 and inform the banker about a withdrawal one month before he makes it.

(c) The client needn't keep any fixed balance but he cannot withdraw his money when he wishes.

(d) The balance is fixed by the bank and so are the dates when withdrawals can be made.

5. How many owners can this special account have?

(a) The account may have only one owner.

(b) The account can be held only by institutional clients.

(c) The account can have another joint owner but that person may not operate it.

(d) The account may have another joint owner if the main holder want that person to operate this account.

(e) Mistake finding.

Why do client so often rely on their bankers? Just because they always protect their interestedness. But the banker will only protect the customer, will he? It is important to protect the bank from serious profits. Therefore, the banks always check the beneficiary's financial standing. In case of Revocable Documentary Credits, it is the banker's duty to make sure that the payment is available. Otherwise the bank may to make serious losses. In order to protect themselves from doing unsecured business, importers' bankers always advises their customers to insist on Confirmed L/Cs. In that case all the payment responsibility is on the issusing bank and not the exporters' bank. Although there are various ways of protection of both parties' interest, yet the most reliable of all these ways is mutual disbelief in each other.

(f) Complete the passage using words from the box and the information in the bank statement below.

credit	account	cash	transaction
payment	balance	deposit	
cheque	debit	debit card	

Jane Sadler opened her …… with the Medway Bank on 28th January with a cash …… of £300. On 15th February, she wrote a …… for £53.25 and this appeared as a …… on the bank statement on 20th February. On 22nd February she took out £60 in …… from a cashpoint machine. On the following day the bank debited £33.50 from her account for a …… she made using her …… . Her monthly salary was paid directly into her account and this appeared as a …… of £802.20 on 26th February. There were no further …… on her account and she finished the month with a …… of £955.45.

ACCOUNT NUMBER **548634396** **PAGE I** **Medway**
STATEMENT NUMBER **01** **Bankplc**
STATEMENT DATE **1 MAR 2000**

Ms. Jane Sadler **53 The Mews Road**
75 Ebury Mews **London**
London SW5 **L34 PY6**

Date	Particulars		Debits	Credits	Balance
28 Jan	Opening deposit	(CSH)		300.00	300.00
20 Feb	Cheque	(CHQ)	53.25		246.75
22 Feb	Autobank AB69301				
	Oxford Street	(CSH)	60		186.75
23 Feb	Maitland and Co	(DC)	33.50		153.25
26 Feb	Bennet and Sons	(CSH)		802.20	955.45
Date	**Particulars**		**Debits**	**Credits**	**Balance**
1 Mar			146.75	1102.20	955.45

2. MATCHING EXERCISES

Match the terms on the left-hand side with their explanations on the right-hand side.

1. Bank deposit
2. Unit banking
3. Sight deposit
4. Time deposit
5. Debit balance
6. Correspondent bank
7. Credit balance
8. Time deposit

(a) A balancing amount of an account in which the total of credit entries exceeds the total debit entries, representing revenue, liabilities or capital.

(b) A deposit of money in an interest-bearing account for a specified period.

(c) A bank in a foreign country that offers banking facilities to the customers of a bank in a foreign country. It is often the result of reciprocal agreements between the two banks.

(d) A system of banking in which a bank must be a single enterprise without branches. They are often independently owned and maintained.

(e) A sum of money placed by a customer with a bank.

(f) Money deposited in a bank account that can be withdrawn without notice.

(g) The balance of an account whose total debit entries exceed the total of the credit entries, representing expenditure and assets.

(h) A balancing amount of an account in which the total of credit entries exceeds the total of debit entries.

3. PREPOSITIONS

Supply the missing prepositions in the below given passage on *Bank Accounts in Japan: Why the Japanese have so many bank accounts?*

People …… Japan have eight bank accounts each. According to the Bank of Japan, there were more than a billion individual bank accounts …… the end of March 2002, …… a population of 127m. These numbers include neither mammoth postal savings, run …… the government, nor the millions …… deposits …… agricultural co-operatives. With them, the average goes up to …… least 13.

That ordinary and savings accounts held …… the same bank are counted separately partly explains the phenomenon. In fact, the high number of accounts per person has more to do …… how bank banks market their services. Most of Japan's 700-odd regional banks have hordes of salesmen who canvas neighbourhoods persuading locals to open accounts, even small ones.

Although this creates lots …… dormant accounts that cost money to run, banks hope that some, …… least, might spawn fresh business. …… one popular type of account, called instalment savings, customers promise to put aside a fixed sum that is collected …… their banker …… monthly visits. The scheme helps customers to save, say, …… their dream house, while securing, …… the banks, a future piece of mortgage business.

4. ARTICLES

Fill in the blank with the appropriate article or leave it blank to indicate that no article is necessary in the below given passage on *International Banking Services*.

…… banking system of Serbia consists of …… central bank, ie., …… National Bank of Serbia, commercial banks and other financial organisations**.** …… founding, organisation, business activities and government of banks are regulated by …… Law on Banks and Other Financial Organisations, adopted in 1993, and amended several times (last amendments 2003). Domestic and foreign legal entities

and natural persons may be founders of …… bank in Serbia and Montenegro, providing that reciprocity conditions are met.

According to …… law, …… bank is …… joint stock company, with at least two parties. …… NBS is authorised to supervise …… activities of commercial banks and to issue or revoke operating licences for commercial banks in Serbia**.** …… operating licence must be given within 60 days of application by **.....** founders**.** …… initial capital of …… bank may be in both money and goods, which must be estimated by …… authorised person**.** …… money contribution to …… initial capital of …… bank must be …… minimum of 10.000.000 EUR in CSD counter value. Foreign investment in …… Postal Savings Bank is not permitted.

As of 30 June 2004, 46 registered banking institutions with total assets amounting to EUR 5.4 billion operate on …… Serbian market. Additionally, …… number of banks under liquidation or rehabilitation still exist. Banking sector operations are concentrated in …… top ten largest banks, which account for over 63% of …… market in terms of assets.

Banking institutions in Serbia may broadly be grouped into …… following categories:

• Banks in state ownership (currently 16).

• Large private banks (holding around 16% of …… Serbian banking market in terms of assets).

• Small and medium-sized banks. (Significant in number but marginal as aggregate assets base; …… majority of them are looking for potential strategic partners and have only limited operations.)

• Foreign banks (Raiffeisenbank, Hypo-Alpe-Adria-Bank, Societe Generale, HVB bank, ProCredit banka a.d., LHB bnak, National Bank of Greece, Volksbank, Alpha Bank A.E., EFG Eurobank).

State ownership of some major banks in Serbia was based on …… London and Paris Club models.

5. TENSES

Fill in the blank spaces in the below given passage on *International Banking Services* with correct verb forms.

In order …… (PERFORM) international banking services in an easier, cheaper and more convenient way, banks often …… (ESTABLISH) agency arrangements or correspondent relations with foreign banks. The foreign banker who …… (INVITE) to become the bank's correspondent banker …… (REQUIRE) some proofs of its credit- and trust-worthiness. Among them …… (BE) certain documents issued by Certified Auditors, usually of international reputation, as well as the Bank's Annual Report with the latest balance sheet. Besides, the potential correspondent may use his own sources of information …… (LEARN) more about the bank's financial standing. It is very important …… (COLLECT) all this information before …… (ESTABLISH) the correspondent relations with any bank.

Why bankers …… (INVESTIGATE) their potential correspondents so carefully? Simply because, once they …… (DO) that, there …… (BE) more chance of good and reliable cooperation in the future, which …… (BE) in mutual interest.

When the bankers are in the process of actually …… (ESTABLISH) correspondent relationship, they must also exchange their Control Documents, Testkeys, and Specimen Signature books for verification of those signatures put on mail payment orders or remittances. That is because the correspondent banker must always be quite certain that the order to make payment …… (GIVE) by an authorised person. In case of …… (SEND) payment orders by e-mail, there are testkeys that are only readable by authorised persons.

REVIEW AND DISCUSSION QUESTIONS

On-line banking is a service provided by many banks, thrifts, etc., that allows us to conduct banking transactions over the Internet using a personal computer, mobile telephone, or a handheld computer. Your task is to assess how you believe E-banking will change the way you manage your savings, apply for loans or pay bills, etc. Before giving your opinion, read the text and consider the below given questions.

1. On-line banking enables us to access accounts round-the-clock, even on week-ends; to see balances on-line and find out whether cheques or deposits have been cleared; to transfer funds between accounts; to download information directly into personal finance software; to receive and pay bills on-line (without cheque writing, envelopes, or stamps), etc.
2. However, when choosing an on-line banking service, one should use the same good business sense as in any other transaction. Also, when purchasing banking products or services on-line, one should always read agreements carefully before signing them electronically.
3. Moreover, recent technologies make it possible to sign contracts or money orders over the Internet that formerly required handwritten signatures. An electronic signature includes any electronic sound, symbol, or process attached to an electronic record and performed with the intent to sign the record. Common examples are digital signatures, initials typed at the end of an e-mail message, or Web page agreements that require us to click a button to acknowledge our agreement. In other words, E-sign legally recognizes contracts made electronically. However, it does not apply to transactions or documents, such as wills, family law matters, court orders, etc., and notices regarding default, foreclosure, termination or cancellation of health insurance or life insurance benefits, product recalls or material failure of a product, endangering health and safety.
4. However, once you are connected to the Internet, all information, encrypted or not, can be viewed by anyone else on the Internet with the right tools. There are, of course, steps that you can take to protect your confidential information. They include using up-to-date virus protection and encryption software to protect your files, ensuring that your computer is physically and electronically safe from intrusion, and monitoring the security of the Web sites that you frequent.
5. Wireless banking is a convenience we all want to take advantage of, and one that financial institutions are eager to have implemented as soon as possible. However, care needs to be taken to avoid potential risks. Wireless banking is revolutionising the financial industry. It is radically transforming both services and customer expectations in societies around the globe. End users are demanding access to their money and financial information anytime, anywhere. By the year 2003, the number of people accessing personal account information on-line will have grown to 40 million – five times the 1998 rate. And the gap between wireless and landline users is narrowing fast. 100 million U.S. residents will access Web in 2003 using wireless devices. That is not far off the 155 million who will connect via the more traditional PC/landline route. In Europe, the situation will be even more marked, with 90% of companies surveyed planning sites accessible

to the projected 219 million wireless users – one third of the European population. However, not every financial institution (especially the large ones) will find it easy to keep pace with the changes demanded. There are connectivity issues, protocol challenges, and a constant flood of new devices onto the market.

Questions

1. What is on-line banking?
2. How do you get started with on-line banking?
3. What does E-sign mean for you? Explain.
4. How can you protect your identity from theft on the Internet?
5. How do you know if your bank is secure?
6. How Internet Explorer could drain your bank account? If not, search for the answer on the Internet.
7. Why won't all financial institutions find it easy to keep pace with the changes demanded?
8. Do you happen to know the components of a wireless system? If not, look for them and list some of them.

Enhancing your writing skills

I Translate the below given passages from Serbian into English language.

Konsolidacija celokupne industrije, uključujući međunarodne transakcije izmedju evropskih i američkih banaka, nastavlja da menja perspektive globalnog bankarstva i finansijskih usluga u 2000-im godinama.

Pored konsolidacije koja se odvija u svetu, jedan od najznačajnih dogadjaja 2000. godine, bio je i nesmetan prelazak u novu godinu bez ijednog pada računarskog sistema od koga se toliko strahovalo. Zaista, postojali su čvrsti pokazatelji da su intenzivni napori koje su banke i druge finansijske institucije širom sveta uložile u modernizaciju i testiranje svojih sistema i razvijanje planova za vanredno stanje – odnosno, "milenijumsku bubu" 2000. godine – proizvele i jedan broj značajnih propratnih pogodnosti, uključujući i bolje razumevanje i veću usavršenost njihovih informatičkih sistema.

Drugi događaj koji je imao značajne posledice po međunarodna finansijska tržišta tokom 2000. godine, bio je uvođenje eura, jedinstvene monete koju je usvojilo 11 država članica Evropske unije, koje su tada činile EMU. Mada je vrednost eura pala od 1. januara 1999. godine, kada je prvi put počeo da se koristi, izgleda da je prelazak na euro ostvaren glatko. Međutim, ostalo je još puno toga da se uradi da bi se potrošači zemalja članica EMU pripremili za konačan nestanak njihovih lokalnih valuta i prihvatanje eura u papirnim novčanicama i kovanom novcu kao zakonskom sredstvu plaćanja. Ova konačna faza je planirana za 1. januar 2002. godine.

II Translate the below given passages from English into Serbian language.

The transition of Central and East European (CEE) countries from rigid state control to free market economy system implies dramatic changes in all sectors of the economy. Restructuring, privatisation, and modernisation are the key factors for economic development and improvement of international competitiveness. Central to this goal is a well functioning capital market, able to fuel the development and growth of private sector. Capital markets can increase savings and boost capital accumulation and efficiency of capital allocation provided that the economic climate is right. In this text, the term "capital market" will be used only in terms of stock and bond market.

Developing capital markets is the only viable alternative to mobilise savings, to fuel efficient investment and to attract foreign investors. From private sector point of view, capital markets are an important source of additional funds for productive investment. The evidence suggest that stock market increases economic growth by easing firms' access to long-term funds for investments and decreasing their dependence on debt.

For making capital markets function properly and for spurring economic development, it is necessary to meet a number of requests. Stable macroeconomics policies, stable currency combined with low inflation are the basic conditions for a capital market to flourish. A modern and efficient banking system, a smooth and efficient payment mechanism, necessary for the post trade settlement of the securities market, and technologically automated systems along with strict regulations to shorten the time between the securities transactions and the payment date.

In reference to capital markets one should keep in mind that along with liquid, well-regulated primary market, the secondary market for securities could bring immense benefits. A liquid secondary market makes it possible to raise more money at sometimes less cost than in the primary market. Also, liquid secondary market is one of the ways foreign investment flow into economy.

Business Letter Module

The business letter

Instructions

1. Business letters differ from informal or personal letters in many ways. In an informal letter you do not write your address but you write the date. The style is very much like the speech. You can use short forms such as *isn't*, *didn't*, etc., which you would not use in a formal letter.

In the past business letters were full of such meaningless phrases as "We have perused", "I beg to acknowledge", etc. You may very occasionally come across bad letters written today which contain phrases of this sort. *Never* attempt to imitate this style of writing. You should use simple and clear language.

2. **THE HEADING** This differs in one important detail from the personal or an informal letter. The name and address of the person you are writing to must be included beneath your own address but against the *left*-hand margin. This is called the 'Inside Address' and should be exactly the same as the one which will appear on the envelope. It may be indented or blocked. In business letters the block style of address is becoming more common and should be preferred. Whichever style you use, you must be consistent, i.e., do not block the sender's address and then indent the inside address.

[The date is written beneath your own address and should be in one of these forms: 19 November, 20__, 19 November 20__, 19th November, 20__, 19th November 20__, (*USA* - November 19, 20__, November 19th, 20__, November 19th 20__ . The form 19/11/20__ is sometimes used, but may give rise to misunderstandings: in the USA the same date would be written 11/19/2001.)]

If you are writing to a man, his name should appear as Mr E. Jones or E. Jones Esq. (an abbreviation for *Esquire*, which nowadays doesn't mean anything very much). You put either *Mr* or *Esq.*, never both. However, if you wish to write to Mr E. Jones, and you do not know his address but, say, his publisher's address, then you will address the letter to: c/o Longman Group Ltd. (abbreviation meaning *care of*). When writing to ladies the usual title is used: i.e.: Mrs J. Robinson or Miss J. Robinson, although *Ms* - a blend of Miss and Mrs - has come to be widely used. Plural form reads Mses or Mss.

Very often you will not know the name of the person who will read your letter. In this case you may direct your letter directly to the company concerned: e.g. Jones, Brown and Co. Ltd., ('Co.' and 'Ltd.' are the usual abbreviations for "Company' and Limited'). When you are writing to a particular person in a Company or other organisation and do not know his or her name, your letter may be addressed to 'The manager', The Principal', 'The Secretary', etc. as the case may be.

3. THE SALUTATION If the person you are writing to is known to you, you may begin "Dear Mr ……,' "Dear Mrs ……," etc. In all other instances, you should begin 'Dear Sir,' 'Dear Sirs' or 'Dear Madam,' 'Dear Mesdames', i.e., 'Dear Gentlemen', 'Dear Ladies' in US letters. Note that *Dear Sirs/Dear Gentlemen* is used to address a company. The comma after salutation is optional. In US letters, you should use a colon. The form *Sir* alone is not used in business letters, though it is the usual form in letters from government offices.

4. THE BODY A business letter usually has four main parts: (a) *reference*; (b) i*nformation*; (c) *purpose*; and (d) *conclusion*.

(a) Reference. You should begin your letter by referring to a letter you have received, an advertisement you have seen, or an event that has prompted you to write. Here are few useful phrases:

Thank you for your letter of June 4th. ...

Many thanks for your letter of October 6th. ...

In your letter of June 4th you inquire about ...

It was a great pleasure to receive your letter of Nov. 16th. ...

In reply to your inquiry of January 19th, I regret that ...

I was very sorry to learn from your letter of June 2nd that ...

You may remember that I visited you last year when

I regret to inform you that ....

I am pleased to inform you that

We hereby inform you that ...

I am writing to inform you that ...

I am writing to inquire about ...

(b) Information. In the second paragraph it is sometimes necessary to supply more detailed information which related to the 'Reference'.

(c) Purpose. Here you must give the reason why you are writing your letter. You should state clearly what you want. Take care to answer closely the question that has been set.

(d) Conclusion. As in the 'Personal letter' it is customary to 'round the letter off' with some polite remark. Here are some useful phrases:

I am looking forward to hearing from you soon. *I do hope I am not putting you to too much trouble.*

I sincerely hope you will be able to help me in this matter. *I would greatly appreciate an early reply.*

I enclose the sample of materials you require. *Please accept my apologies for the trouble this mistake has caused you.*

5. THE SUBSCRIPTION Where a letter is begun by Dear Sir/Sirs/Madam/ Mesdames, you must end with the words 'Yours faithfully', 'Yours truly', or 'Very truly yours'. When, however, you address a person by name – even if you barely know him or her – you must conclude with the words 'Yours sincerely'.

6. THE SIGNATURE Sign your name clearly *in full* in the way you wish it to appear on the envelope which will be addressed to you in reply to your letter.

If a manager or the head of a department signs for the firm he will do it like this:

For Weavewell Woolen Co. Ltd. or *per pro* Weavewell Woolen Co. Ltd.

Per pro or often *p.p.* means that the person is authorised to sign for the firm. *For and on behalf of* has the same meaning. Both forms are frequently used on cheques, bills of exchange and other documents.

7. STANDARD PHRASES. You do not need to be an expert to write a simple letter of inquiry, offer, order, etc. But you do need to know some useful phrases. Here are some standard phrases that you may require for the writing of business letters. It does not mean that you have to write them by picking and putting these phrases together. To write a simple and clear business letter you should use your intelligence, the knowledge of English and technical language that you have learned so far.

Inquiries

(a) Please send us / We shall be glad to receive → your price list (catalogue, patterns, samples) / with your lowest prices

We have an inquiry for ... / We are in the market for ... / We are interested in / We have seen your advertisement → and would ask you to send us / (and would be obliged if you would send us) / your price list (etc.) with / your best terms

(b) Please offer qualities (articles, goods) / Please send us samples (patterns) of ... / We are only interested in goods → which you can supply from stock / (for prompt delivery, for delivery Jan./Feb., etc.) which can be shipped within ... weeks from receipt order

(c) If your prices (terms, qualities) are satisfactory (competitive, attractive) → we shall (may) send you / (place) and order (a trial order, a substantial order, regular orders)

(d) We look forward to having your reply / An early reply will oblige → as soon as possible / (by return, by air mail)

Offers

(a) We thank you for your inquiry of ...
We acknowledge with thanks ...
We are obliged for your letter (inquiry) of ...

(b) As requested
With reference to your inquiry
In reply to your letter

we are sending you herewith (under separate cover) we have pleasure in sending you we enclose	our latest (illustrated) catalogue (our price list, our spring list, our range of patterns, a good selection of samples of ...)

All details (particulars) are shown (given) in our price list (catalogue).
Our offer is without commitment (subject to the goods being unsold on receipt of your order).
All prices are subject to the alteration without notice.

(c) Terms:
Usual Terms, Terms as before, Net, Strictly Net, Cash with Order (C.W.O.) on new accounts, Cash on Delivery (C.O.D.)
Payable 10th following month less 2.5%.
30 days 5%, 60 days 2.5%, 90 days net.

Export Terms:
Documents against payment (D/P).
Documents against acceptance of our 30 days' sight draft.
Shipping documents will be surrendered against Irrevocable Letter of Credit.
Quarterly 30 days' sight (d/s).

(d) We hope (We trust, We are confident) that you will find the article (the goods) you want in our range (catalogue) and are looking forward to receiving your order.

Please let us know if our offer does not contain what you require; we shall be glad to send you further samples.

As prices are rising As our stocks are rather low As we are booking heavy orders every day	we would advise you to order soon (by return)

We shall be pleased to receive your order, and remain, Any order which you may place with us will have our prompt and careful attention	Yours faithfully,

Orders

(a)

We thank you for We refer to We acknowledge with thanks	your letter (offer, quotation) of ... with price list (catalogue, patterns samples)

(b) Please supply (send us) by post (rail, passenger train, next boat, air mail ...)
Please book the following order:

We have pleasure in enclosing our order No. ... We enclose herewith our Order No. ...	with detailed instructions (for your (best, prompt) attention)

We require Please arrange for	immediate (prompt, punctual) delivery (despatch, shipment)

The goods are required at once (immediately, within ... weeks).
The order must be despatched (executed) without delay (not later than ...)
Please despatch (deliver, ship, pack, mark) in strict accordance with our instructions.
The goods must comply (agree) in every respect with our specifications (with the samples, patterns).

(c) Please advise us when the order is ready for delivery (shipment).
Detailed (Full) instructions regarding marks and numbers (packing, shipping route) will follow.
Please await our instructions for insurance.
We require invoice in duplicate (triplicate, quadruplicate, with 5 copies) and two consular invoices (certificates of origin)

We have pleasure in enclosing our order No. ... We enclose herewith our Order No. ...	with detailed instructions (for your (best, prompt) attention)

We require Please arrange for	immediate (prompt, punctual) delivery (despatch, shipment)

The goods are required at once (immediately, within ... weeks).
The order must be despatched (executed) without delay (not later than ...)
Please despatch (deliver, ship, pack, mark) in strict accordance with our instructions.
The goods must comply (agree) in every respect with our specifications (with the samples, patterns).

As this is our first order with you (our first transaction with you)	}	we shall remit on receipt of your pro forma invoice we enclose cheque (bank draft) for £100.

(d) We shall appreciate your careful attention to our instructions.
We expect careful (prompt, speedy) execution of our order.
Please inform us whether you can accept our order on these terms.

Apologies and explanations

(a) We acknowledge your letter (telephone call, e-mail) of ...
We acknowledge the receipt of your letter (etc.) of ...

(b) ***I*** *Delays*

We (very) much regret We are very (extremely sorry)	}	the delay in the delivery (despatch, execution, completion) of your order.

The delay is due to causes beyond our control (to a strike, breakdown in a factory, shortage of raw material, the will of God).

II *Goods unsatisfactory or damaged*

We are (really) sorry to see (learn) from your letter We are very sorry indeed	}	that you are not satisfied with our goods (delivery, shipment, consignment). that you are complaining of the quality (weight, colour) of ...

We have examined (gone into, looked into) the matter (your complaint) carefully (thoroughly).
We can assure you that our prices are in every respect competitive (are most carefully calculated).

III *Errors*

We (want to express) our (sincere) regret for We offer our (sincere) apologies for	}	the error (mistake) in our invoice (statement, shipment, consignment)

Here is an example of an inquiry with a given reply.

INQUIRY

Messrs. Reynold & Harvey,
14, King Street,
Coventry, CV5 4MB,
England

JR/HG
22nd October, 20__

Weavewell Woollen Co. Ltd.
Victoria Street,
London, EC4X ISH,
England
Tel.: 01-173 7431
Telex: 7325149

Dear Sirs,

We have seen your advertisement in the "Textile World" and learnt that you are producing Ladies' Woolens.

There is a steady demand here for the high-class goods of this type, especially in brighter colours. Sales are not very high, but a very good price could be obtained for fashionable designs.

Would you please send us patterns of Ladies' Woollens with your best terms.

We look forward to hearing from you soon.

Yours faithfully,
Reynold & Harvey
J. Reynold

REPLY

Weavewell Woollen Co. Ltd.
Victoria Street,
London, EC4X ISH,
England
Tel.: 01-173 7431
Telex: 7325149

23nd October, 20__

DA/LR
Messrs. Reynold & Harvey,
14, King Street,
Coventry, CV5 4MB,
England

Dear Sirs,

Thank you for your inquiry of 22nd October for Ladies' Woollens.

We have much pleasure in sending you a full selection of our latest and best-selling designs and hope that some of them will interest you.

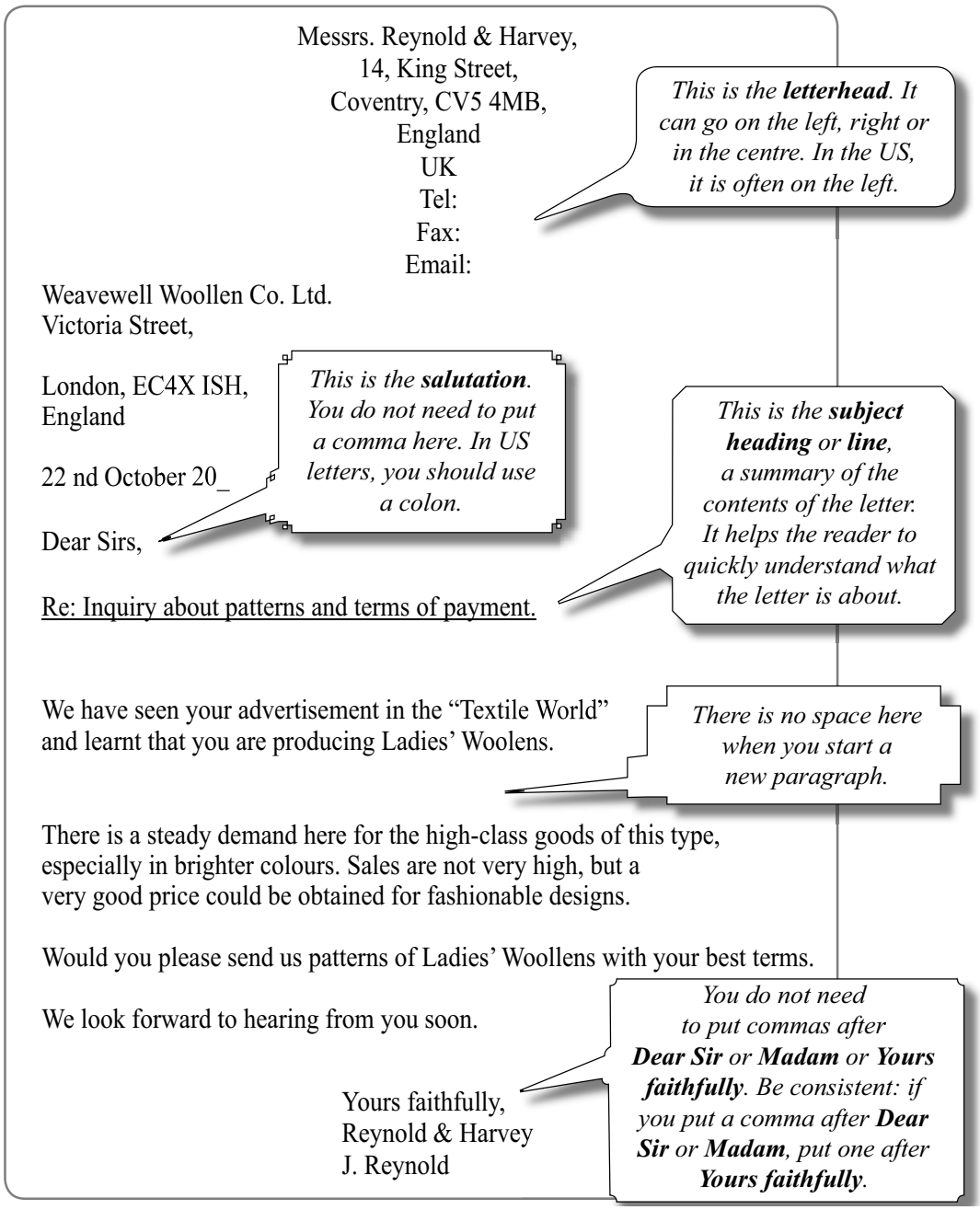
May we draw your special attention to our exclusive quality 'Goldring' which has been an outstanding success. We believe that it represents the best value for money in this type of goods and we are sure that you will find that it sells very well indeed.

If the range of patterns which we have selected does not contain everything you want, please do not hesitate to let us know your exact requirements: we are most anxious to meet your wishes.

We are looking forward to receiving your order, which shall have our best attention.

Yours faithfully,
p.p. Weavewell Woollen Co. Ltd.
D. Austin
Sales Manager

Below is given another example of a business letter, showing how you arrange the different parts on the page.



Enhancing your writing skills

Write the following letters:

1. *(a)* An inquiry from your firm asking for a price list and samples of goods advertised in your trade paper by a firm with whom you have not previously done business.

(b) Your reply.

2. Acknowledge a quotation but regret you are not able to place an order.

3. Messrs Russell and Matthews of Bristol will place an order for 10,000 tins of fruit at the price quoted if they are given a trade discount of 7.5%. Write their letter and the reply either allowing discount or refusing it.

4. Messrs Newman & Turner have replied unfavourably to your circular letter about men's shirts saying that their present supplier has more varied stock at cheaper prices. Write a reply.

5. *(a)* A letter to a pottery manufacturers complaining that in order for cups and saucers and plates you find a number of second quality articles, though you ordered and were invoiced for first quality.

(b) A reply from a pottery manufacturer apologising for the mistake in the packing department.

Translate the below given letters from Serbian into English language:

(a) Order asking for an extension of credit, is sent by Mr G. Soames of Soames & Parsons, Rose Street, Glasgow,G2 4WB, to Mr D. Austin of Weavewll Woolen Co. Ltd., Victoria Street, London, EC4X ISH.

Zahvaljujemo Vam se na Vašoj ponudi od 13. decembra. Pošto cene i kvalitet deluju zadovoljavajuće, uz pismo Vam prilažemo narudžbinu na razmatranje.

Pošto posao trenutno ide prilično slabo, moramo da Vas zamolimo da donekle izmenite uslove i da nam omogućite da plaćanje izvršimo u roku od 60 dana sa kamatom od 1,5%. Isporuka nam je potrebna 5. januara.

Budite ljubazni i dostavite nam povratnu informaciju o tome da li možete da nam rezervišete narudžbinu pod takvim uslovima.

(b) A disappointing customer's letter from Reynold and Harvey, 14, King Street, Coventry, CV5 4MB, who write (to Mr D. Austin of Weavewll Woolen Co. Ltd., Victoria Street, London, EC4X ISH) that they could not give an order because they considered the offer they had from their regular supplier more attractive.

Zahvaljujemo Vam se na vašem pismu sa prilozima od 15. decembra.

Pošto smo Vašu ponudu pažljivo uporedili sa onom od našeg redovnog snabdevača, došli smo do zaključka da su njegove ponuđene cene povoljnije, te stoga ne možemo da naručimo robu od Vas.

Zajedno sa ovim pismom Vam vraćamo i Vaše uzorke.

(c) Reply from Mr D. Austin of Weavewll Woolen Co. Ltd., Victoria Street, London, EC4X ISH to Reynold and Harvey, 14, King Street, Coventry, CV5 4MB.

Zaista nam je bilo veoma žao kad smo iz Vašeg pisma od 15. decembra saznali da našu ponudu ne smatrate dovoljno zanimljivom da biste kod nas izvršili porudžbinu.

Shvatićete da ponuda poslata poštom može da predstavlja samo ograničen izbor našeg širokog opsega (ponude). Mi smo g. Armeriju (*Armery*), našem predstavniku za Koventri, ipak poslali vaš upit i on će najverovatnije navratiti do vas u roku od narednih nekoliko dana. Bili bismo Vam veoma zahvalni kad biste mu dozvolili da Vam pokaže našu celu kolekciju; nadamo se da ćete naći nekoliko odgovarajućih proizvoda.

Upravo smo kupili kompletne zalihe Mekiltijeve predionice (*MacKiltie*), te možemo da ponudimo taj čuveni kvalitet po vrlo povoljnim cenama. Gospodinu Ameriju će biti drago da Vam ih pokaže, a mi smo uvereni da ćete Vi biti zainteresovani za njih.

UNIT 3 STOCK EXCHANGE OR STOCK MARKET OR BOURSE

STOCK EXCHANGES AND MAJOR INTERNATIONAL STOCK EXCHANGES

Stock exchange is a market for the sale and purchase of securities, in which the prices are controlled by the laws of supply and demand. Their basic function is to allow public companies, governments, local authorities, and other incorporated bodies to raise capital by selling securities to investors. Most stock exchanges are *auction markets*. As in any auction market, securities are sold to the broker bidding the highest price and bought from the broker offering the lowest price. Since the market is continuous, buyers and sellers are constantly competing with each other.

All trading that does not take place on a registered stock exchange is handled by the *over-the-counter* (*OTC*) market. In OTC trading, buyers and sellers seek each other out and negotiate the most favorable prices they can achieve. Dealers compete with each other in the purchase and sale of stocks. To disseminate information on OTC securities, an electronic communications system designed to link all OTC firms into one vast market was inaugurated in 1971. This system of communications is known as NASDAQ (*National Association of Securities Dealers Automated Quotations*).

The major international stock exchanges are based in London, New York and Tokyo. Outside English-speaking countries, a stock exchange is usually known as a *bourse*.

LONDON STOCK EXCHANGE (LSE)

London Stock Exchange is a marketplace for securities. The market was formed in 1773 by several stockbrokers who had been doing business informally in neighbourhood coffeehouses. However, it was not formally instituted until 1802, and rules for the exchange were established soon afterwards, which rules have subsequently been amended several times. In 1973, the UK's six regional exchanges joined together to form the Stock Exchange of Great Britain and Ireland, later renamed to the London Stock Exchange.

After the Big Bang in 1986 this organisation became the *International Stock Exchange of the UK and Republic of Ireland Ltd*. *Market makers* and *broker-dealers* constituted its members. The former refers to a dealer who buys and sells securities as a principal and is therefore obliged to announce prices at which he will buy or sell a particular security at a particular time. The latter is entitled to act as agent and principle in share dealings.

Also, since 1986 the Big Bang has also been associated with major reforms, which, *inter alia*, included: (1) TOPIC (*Teletext Output Price Information Computer*) – a computerised communication system providing brokers and market makers on the London Stock Exchange with information about price movements and bargains as they are transacted; (2) SEAQ (*Stock Exchange Automated Quotations System*) – a computerised system used on the London Stock Exchange to record the prices at which the transactions in securities have been struck, thus establishing the prices for these securities, which prices are made available to brokers through TOPIC; and (3) TALISMAN (*Transfer Accounting Lodgment for Investors and Stock Management*) – the London Stock Exchange transfer system, which covered most UK securities.

Companies across the world come to the London Stock Exchange looking to raise money to develop and grow their business. Listing on their markets gives companies the chance to tap into one of the world's deepest pools of capital.

THE NEW YORK STOCK EXCHANGE (NYSE)

The most important stock exchanges in the United States are the New York Stock Exchange and the American Stock Exchange, both in New York City; the Midwest Stock Exchange, in Chicago; and the Pacific Coast Stock Exchange, in San Francisco and Los Angeles.

However, the **New York Stock Exchange** is the oldest and largest marketplace for securities in the United States, located on the Wall Street in New York City. It traces its origins back to 1792, when a group of brokers met under a tree at the tip of Manhattan and signed an agreement to trade securities. It was formally constituted in 1817. The present name was adopted in 1863. Membership, limited to 1,366 since 1953, is obtained by purchasing a seat from an existing member.

Unlike some of the newer exchanges, the NYSE still uses a large trading floor to conduct its transactions. It is here that representatives of buyers and sellers, professionals known as brokers, meet and shout out prices at one another in order to strike a deal. This is called the open outcry system and it usually produces fair marketing pricing.

There are several kinds of brokers on the trading floor of the exchange. They include the *commission broker* who executes orders to buy or sell securities in return for a brokerage; *floor brokers*, or "*two-dollar*" *brokers*, who execute orders for other brokers

at a commission but have no contact with the public; *odd-lot brokers*, who undertake to buy or sell in quantities other than the standard 100-share lot; and "*registered traders*" who buy and sell for their own account.

New York Stock Exchange transactions may be made in three different ways: cash, regular, or on a limited option to the seller regarding the time of delivery or acceptance. In cash transactions stock is bought, delivered, and paid for on the same day. In regular transactions the stock is bought and must be paid for and delivered by noon on the fifth day following a full business day. Seller's-option contracts may be made for delivery within any specified period not exceeding 60 days.

THE TOKYO STOCK EXCHANGE (TSE)

Tokyo Stock Exchange is the main stock market of Japan, and one of the world's largest marketplaces for securities. The exchange was first opened in 1878 to provide a market for the trading of government bonds. The Tokyo Stock Exchange, along with all other Japanese stock exchanges, was closed from 1945 to 1949. As the phenomenal growth of Japan's economy continued, the Tokyo Stock Exchange grew to become, by the late 1980s, the world's largest securities exchange, overtaking the New York Stock Exchange.

The Tokyo Stock Exchange was formerly a membership organisation. However, the revision of the Securities and Exchange Law allowed the stock exchange to transform its organisational structure into a stock corporation. And in 2001, the Tokyo Stock Exchange became the stock corporation.

Members of Japanese exchanges must be corporations doing a business in securities. There are two kinds of members: *regular members*, who buy and sell for customers or for their own accounts, and *saitori*, who act principally as intermediaries for regular members.

1. READING FOR COMPREHENSION

(a) Answer the below given questions.

1. Explain the following statement: "Most stock exchanges are auction markets".
2. Identify major international stock exchanges.
3. State the difference between brokers and dealers.
4. There are several kinds of brokers on the floor of the NYSE. Identify them.
5. NYSE transactions may be made in three different ways. Identify them.

(b) Decide if the following statements are true or false and correct the false ones.

	T	F
1. The basic function of stock exchanges is to allow public companies, governments, local authorities, and other bodies to raise capital by selling shares to debtors.	☐	☐
2. Since most stock exchanges are auction markets, securities are sold to the broker bidding the lowest price and bought from the broker offering the highest price.	☐	☐
3. All trading that does not take place on a registered stock exchange is handled by the over-the-counter market.	☐	☐
4. The major international stock exchanges are based in London, New York and Tokyo.	☐	☐
5. Market makers and broker-dealers constitute the members of the New York Stock Exchange.	☐	☐
6. The NYSE membership, limited to 1,366 since 1953, is obtained by buying a seat from an existing member.	☐	☐
7. Commission brokers execute orders to buy or sell securities in return for a commission.	☐	☐
8. Like some of the newer exchanges, the New York Stock Exchange still uses a large trading room to conduct its transactions.	☐	☐
9. Floor brokers, or "two-dollar" brokers execute orders on their own behalf at a commission but have no contact with the public.	☐	☐

(c) Tick the right answer.

1. Stock exchange is:

(a) A market for the sale of securities, in which the prices are controlled by the laws of supply and demand;

(b) A market for the sale and purchase of securities, in which the prices are controlled by the laws of supply and demand;

(c) A market for the sale and purchase of securities, in which the prices are controlled by stockbrokers.

2. *Over-the-counter (OTC) market refers to:*

   (a) All trading that does not take place on a registered stock exchange;

   (b) An electronic communications system known as NASDAQ;

   (c) Auction market.

3. *Market maker is:*

   (a) A firm that as, a member of the London Stock Exchange, acts as a broker for clients;

   (b) A firm that acts as a maker of the market;

   (c) A dealer who buys and sells securities as a principal and is therefore obliged to announce prices at which he will buy or sell a particular security at a particular time.

4. *TOPIC is:*

   (a) A computerised communication system providing brokers and market makers on the London Exchange with information about price movements and bargains as they are transacted;

   (b) The London Stock Exchange transfer system;

   (c) A computerised system used on the London Stock Exchange to record the prices at which the transactions in securities have been struck.

5. *Brokers on the floor of the exchange include:*

   (a) Commission brokers, floor brokers or "two-dollar" brokers, market makers and broker-dealers;

   (b) Commission brokers, floor brokers or "two-dollar" brokers, odd-lot brokers, and registered traders;

   (c) Market makers and broker-dealers.

6. *Brokerage is:*

   (a) The business of a broker;

   (b) An agent who brings two parties together, enabling them to enter into a contract to which the broker is not a principal;

   (c) The fee charged by a broker for buying or selling shares for another person.

7. *The world's largest marketplace for securities is:*

   (a) London Stock Exchange;

   (b) New York Stock Exchange;

   (c) Tokyo Stock Exchange.

2. MATCHING EXERCISES

Match the terms on the left-hand side with their explanations on the right-hand side.

1. Big Bang	(a)	A fixed-interest security issued by the British government. They are among the safest of all investments, as the government is unlikely to default on interest or principal repayments.
2. Black Monday	(b)	Colloquial name for any of the ordinary shares in the most highly regarded companies traded on the stock market.
3. Gilt-edged securities	(c)	The most common form of long-term loan taken by a company recognizing the debt.
4. Debenture	(d)	The upheaval on the London Stock Exchange when major changes in operation were introduced in 1986, since when it has also been associated with the globalisation and modernisation of the London securities market.
5. Blue chip	(e)	It refers to the two largest stock market crashes in the 20th century. In both cases it triggered heavy market falls around the world.

3. PREPOSITIONS

Supply the missing prepositions in the below given passage on *The New York Stock Exchange and the American Stock Exchange: Buying and selling*

The New York Stock Exchange was organised …… 1792. Trading is conducted …… stocks and bonds. The American Stock Exchange was founded …… 1908. Trading is basically similar …… that …… the New York Stock Exchange.

The brokers of the U.S. stock exchanges are all …… one class, but many specialise …… specific markets. These brokers, called specialists, assist …… maintaining markets …… the stocks …… which they deal. Some members, called registered traders, trade largely …… their own accounts; others, called commission brokers, execute the orders …… their firms' customers.

The business …… buying and selling shares is done …… an area known as the trading floor. Positions called trading posts are scattered …… the floor. Each post bears the names …… the stocks traded …… that post. If the prevailing price of the stock is several points away …… the figure the broker is authorised to pay, an order may be left …… the specialist. The specialist enters the order …… a book; when the desired price is reached, the specialist buys or sells the stock according to the broker's orders and reports the transaction …… the buyer and the seller. The buyer and the seller make a memorandum …… the transaction, which is reported …… the brokerage office. An exchange employee …… the post where the transaction occurs writes, …… a special card, the number of shares, and the price, and places the card …… an optical reader. The photoelectric eye …… the optical reader scans the pencil marks and transmits the information …… a computer. The computer records the information and transmits the details of the transaction …… electrical tickers and display devices …… the United States, Canada, and Europe.

4. ARTICLES

Fill in the blank with the appropriate article or leave it blank to indicate that no article is necessary. Give the title to the below passage.

Among many, ……. most famous include Dow Jones Industrial Average, Financial Times-Stock Exchange 100 Index and Nikkei Index.

Dow Jones Industrial Average is ……. index of security prices issued by Dow Jones & Co. (……. US firm providing financial information), used on ……. New York Stock Exchange. It is ……. narrowly based index, having 30 constituent companies. ……. index was founded in 1884, based then on 11 stocks (mostly in railways), but was reorganised in 1928 when it was given ……. value of 100. The other Dow Jones averages published include one based on 20 transportation stocks (*Dow Jones Transportation Average*), one based on 15

utility stocks (*Dow Jones Utility Average*), ……. composite based on all 65 stocks, and several bond averages.

Financial Times-Stock Exchange 100 Index (*FT-SE 100* or *Footsie*) is ……. list published by ……. Financial Times newspaper based on ……. prices of 100 specially selected shares. This index is created minute-by-minute.

Nikkei Index or *Nikkei Stock Average* is ……. main list of ordinary shares showing price changes on ……. stock exchange in Tokyo, having 225 Japanese companies. (Nikkei is ……. shortening of ……. full name of ……. newspaper group.) It was originally known as ……. Nikkei Dow Jones Index and first calculated in 1949. Membership of ……. index is now reviewed annually, when up to six members can be replaced if their shares become illiquid or unrepresentative.

5. TENSES

Fill in the blank spaces in the text with correct verb forms. Give the title to the below given passage.

Let's introduce Serbia's capital market – no **equity** culture, lack of information, inadequate regulations, not too many interested investors, which all together ……. (MAKE FOR) a gloomy picture. Almost fifty years of social self-management ……. (NOT/BE) helpful at all in ……. (CREATE) a market economy.

Now, the Government – trying to raise very badly needed cash before the winter and with a hope of injecting new life into economy after a decade of wars and sanctions – wants ……. (BOOST) the local capital market by ……. (SELL) **equity** in already privatised companies and ……. (ORGANISE) accelerated auction sales in a privatisation drive on the Belgrade Stock Exchange.

With a lack of capital at home and economic uncertainty abroad, the next few months …… (BE) a crunch time for the Serbian Government, which badly …….. (NEED) to find buyers for state assets …….. (RAISE) cash to the amount of at least USD 80 million needed for electricity imports for the upcoming winter and …….. (KICK-START) the industry.

What can shift some liveliness to the capital …… (BE) a plan to accelerate action privatisation by ……. (SELL) 1,000 small-size firms by the end of 2002 to mainly domestic investors, including current employees and managers. Some domestic investors …… (BE) ready to enter certain risks and …… (BUY) companies with no-so-clear status or income papers. However, foreign investors ……. (KEEP) their hands far away from anything that has just a touch of murkiness.

Another measure for ……. (REVIVE) capital market and ……. (FILL) state coffers is selling state-owned **equity** of some 780 enterprises privatised by the previous Law on Property Transformation in 1997. Two state funds – the Share Fund and the Pension and Insurance Disability Fund – now hold EUR 1 billion worth of shares and so far in trading the state …… (SELL) **equity** worth only EUR 23.5 million.

The Government now …….. (PLAN) to accelerate trade of **equity** at the Belgrade Stock Exchange by a new strategy. First, it …… (WANT) to pursue the pace of offering minority stakes in 3-4 companies each week by the end of the year, with the intention of …… (SELL) state-owned stakes in at least 100 companies. The best companies' shares – including the flooring factory *Sintelon*, the pharmaceutical company *Hemofarm*, food company *Banini*, etc. - are in the Share Fund.

After this, it ……. (IDENTIFY) companies in which the Share Fund has a portfolio of more than 33% stake and ……. (PICK) 4 or 5 good investment hungry ones, ……. (LIST) them on the Stock Exchange and …….. (BOOST) a campaign …….. (ATTRACT) average Serbs …….. (USE) their estimated EUR 4 billion hidden-under-mattresses savings to try to make something out of it.

Another obstacle …… (REMOVED) in order for the capital market to begin fully operating is for domestic privatised companies …… (VERIFY) their property structure in the official register. Emitted shares are worthless papers without the official certificate, and they cannot be used for stock market operations. Out of 1,800 companies that already …….. (BEGIN) privatisation only one-fifth registered their ownership books by the end of June. In some cases, the management …….. (REFUSE) to register shares because it ……. (CONTROL) 100% of the company's business operations.

Bright days surely …… (COME) for Serbia's capital market, sooner or later, and it is a fact that the potential …… (BE) out there.

Review and discussion questions

In order to discuss the bellow given questions, you will need to know something about the *history of bubbles and crashes*, for the reason of which we offer some guidelines:

1. A bubble is defined as a type of investing phenomenon which occurs when investors put so much demand in a stock that it drives the price a great deal over its actual worth, which is determined by the company's performance. They bear such a symbolic name thanks to their characteristic to appear as though they will

rise forever, but in the end, they, nevertheless, pop (in an unexpected moment), since they are not formed from anything substantial. Together with the bubble, invested money vanishes into thin air.

2. As a result of bubble, a crash on the market may occur. Crashes in the stock market often result in depression. Bubbles and crashes appeared together with the rise of capitalism and free market concept, so we can trace their origin back to the 17th century, when the first known bubble, so-called "Tulip-Bulb Craze" occurred. To make the long story short, in the 17th century a rather unique flower-tulip was first introduced to the Dutch, which novelty, unusual character and flaming colours soon made the flower very popular and expensive. Due to enormous rise in demand, the price of tulips reached 20 times its original value in only one month. However, a few wise investors decided that the moment was opportune to sell, causing thus the prices to fall steeply. In turn, the prices caused panic as everyone was selling regardless of losses incurred.

3. Thereafter occurred many similar events, such as the South Sea Company in the 18th century, when the leading economic position of the UK prevented the complete crash from happening. Next was the decline of the real-estate market in Florida in 1920s, which was followed by another crash, i.e., "Black Monday".

4. The First World War was won and it was the time of prosperity for the "bullish" Americans, who were eager to invest, as much as the British were in the 18th century. Since the prevailing belief was that the stock market was not a risky market, many uneducated investors appeared: the market was a perfect place for all kinds of manipulators. Actually, brokers, dealers, investment bankers, etc., manipulated stock prices by buying huge quantities of stock, trading them between each other, slightly increasing the price each time and eventually selling thus overpriced shares outside of their organised groups. This kind of manipulation could not last forever: it resulted in Great Depression and ended with the beginning of the World War Two, when the Securities Exchange Commission (SEC) was established in order to prevent similar events happening.

5. The last crash that affected the US market was the Dot-Com crash. It began in March 2000 and continued to affect NASADAQ in 2001 and 2002. Once again, the investors were excited over new companies (this time internet companies) that promised high profits, and were more interested in new, big ideas than in financial statements and business plans. The result of this unexpected boom

was the same as in former examples: it was a typical bubble that popped when the Internet companies reported their disappointing business results and major losses. By then, it was too late for the investors to come to their senses – their money was lost.

Questions

1. What is the main indicator of a bubble? Illustrate it by at least one of your own examples.
2. Identify the reasons which may cause the crash, bearing in mind the above given facts.
3. Can people expect more market crashes in the future? Support your opinion.
4. What do you know about Belgrade Stock Exchange? Search for answers to questions such as: When was it founded? Why and when was it closed? When was it reopened? What are the Exchange bodies? How many shareholders does it have? How many methods of trading shares do we have in Belgrade Stock Exchange and what can they be?

Enhancing your writing skills

Translate the below given text from Serbian into English language.

(a) Rad berzi u našoj zemlji je regulisan Zakonom o berzama, berzanskom poslovanju i berzanskim posrednicima. Ovaj zakon reguliše pitanja o pravnom položaju berzi (osnivanju, pravnom licu, organima, članovima berze i berzanskim posrednicima), poslovanju berze i kontroli poslovanja, i posebno funkcijama Savezne komisije za HoV i finansijska tržišta. Ovaj zakon, s druge strane, ne reguliše izričito nedozvoljeno trgovanje akcijama na osnovu poverljivih informacija, tj. trgovina akcijama kompanije radi sticanja dobiti ili izbegavanja gubitka od strane lica koja imaju pristup poverljivim podacima, koji bi, kad bi bili poznati javnosti, uticali na njihovu

cenu. U našoj zemlji, nedozvoljeno trgovanje akcijama na osnovu poverljivih informacija regulisano je Zakonom o berzama, berzanskom poslovanju i berzanskim posrednicima. Prema ovom zakonu, nijednom licu koje ima pristup poverljivim podacima, još uvek nedostupnim javnosti, a koji mogu da utiču na cene, nije dozvoljeno da koristi takve podatke radi sticanja materijalne ili bilo kakve druge koristi za sebe ili za druga lica. Pridržavanje ovog propisa nadgleda Upravni odbor Berze, koji preduzima mere za njegovo zakonsko sprovođenje.

Zakon o berzama prihvata koncept mešovitih berza, na kojima može da se trguje HoV, dragocenim metalima i drugom robom, finansijskim derivatima, kao što su opcije, itd. Prema zakonu, najmanje osam lica mora da učestvuje u osnivanju berze.

Kad je reč o organima Berze, ona mora da ima skupštinu, upravni odbor, nadzorni odbor i direktora. Pravni položaj i poslovna sposobnost ovih organa identični su pravnom položaju i poslovnoj sposobnosti sličnih organa preduzeća koja su organizovana kao akcionarska društva, mada postoji određena razlika kad je reč o odnosu (stavu) države. Za rešavanje sporova koji nastaju između učesnika na berzi, berza je obavezna da ustanovi arbitražu, čije članove imenuje skupština.

Prema zakonu, član berze može da bude samo pravno lice, koje je istovremeno registrovano kao berzanski posrednik, što mogu da budu banke, osiguravajuća društva (kompanije), itd. – koji ima dozvolu za trgovanje koje izdaje Nacionalna banka, kao i investicioni fondovi i drugi berzanski posrednici koji trguju kao posrednici i principali, kao što su preduzeća koja daju zajam sa kolateralnim obezbeđenjem, firme koje daju zajam na zaloge, menjačnice, itd. Članstvo na berzi se dobija ili gubi odlukom upravnog odbora berze.

(b) Prema Zakonu o obligacionim odnosima, prenosivi instrumenti predstavljaju pisane isprave (dokumente) kojim se izdavalac obavezuje da ispuni obavezu upisanu na takvoj ispravi njihovom zakonitom imaocu. U našoj zemlji, postoje, između ostalih, sledeće vrste prenosivih instrumenata: menice (bezuslovni pismeni nalog, kao što je ček, kojim se od određenog lica ili organizacije, kao što je banka, zahteva da navedenom licu isplati naznačeni iznos ako se radi o menici po viđenju, ili ako se radi o ročnoj menici, kroz tačno određen period), konosmani (isprava kojom se potvrđuje da je roba konsignanta primljena na brod radi prevoza morem), komercijalni papiri, blagajnički zapisi, akcije, obveznice, itd.

Kao prenosive instrumente, akcionarska društva izdaju akcije koje imaju određenu nominalnu vrednost (tzv. "pari" vrednost). Privatne kompanije mogu slobodno da izdaju akcije, dok javne kompanije i u slučaju kada se osniva kompanija, i u slučaju kad

kompanija uvećava svoj kapital, treba da imaju saglasnost Savezne komisije za HoV i finansijska tržišta.

Kompanije mogu da izdaju akcije različitih vrsta (klasa), kao što su akcije koje glase na ime i akcije koje glase na donosioca, privremene i stalne akcije, akcije koje nose pravo glasa na skupštini i akcije čiji vlasnici nemaju pravo glasa na skupštini. Najuobičajenije klase su ipak obične i prioritetne (povlašćene) akcije, ili, u američkoj terminologiji, obične i privilegovane akcije. To je akcija (na vlasništvo) u kompaniji koja donosi fiksnu a ne promenljivu stopu dividende. Kod kumulativne prioritetne akcije vlasnik ima pravo na isplatu svih neisplaćenih dividendi tokom proteklih godina. S druge strane, akcija po kojoj se neisplaćena dividenda ne akumuliše, jeste prioritetna akcija koja ne nosi pravo na isplatu dividendi koje nisu bile isplaćene prethodne godine.

Postoje i priroritetne akcije koje svojim vlasnicima, pored dividende sa fiksnom stopom, daju pravo na udeo u dobiti u kompaniji, pošto se vlasnicima isplati naznačena dividenda na obične akcije. Nasuprot priroritetnim akcijama koje svojim vlasnicima daju pravo na udeo u dobiti u kompaniji, stoji priroritetna akcija koja ne nosi pravo na udeo u dobiti kompanije već samo na dividendu sa fiksnom stopom. To je najuobičajenija vrsta prioritetne akcije.

Mada prioritetne akcije nisu uobičajene u Evropi, prema nemačkom i italijanskom zakonu one se izdvajaju po tome što su jedina vrsta akcija koje mogu da se izdaju bez prava glasa na skupštinama, dok sve druge nose pravo glasa srazmerno svojoj nominalnoj vrednosti određenoj zakonom.

II Translate the below given text from English into Serbian language.

Liquid stock markets allow investors to hold and to trade equities quickly and at low cost, making in this way long-term investment more attractive. A major contribution of stock market operations is the provision of information allowing the right valuation of enterprises. For transition economies one of the capital problems in privatising the existing state-owned enterprises is to determine their value. The market-based valuation of capital requires additional information about the relative value of different enterprises based on the net present value calculation of future profits. Trading in equities is expected to determine the real market value of the existing enterprises.

Appropriate legal and accounting framework is also one of the necessary conditions. The accent here is on the clearly defined property rights. Ownership transfer

presupposes clear and inviolable property rights, as well as the law of contract. Even if well-drafted laws exist, they must be implemented and enforced. Enactment of modern laws on privatisation, foreign, investments, company, stock exchange are a must. Last, but not least, these laws and regulations should be harmonised with international legislation so that foreign investors find it attractive to enter capital markets. Special attention should be given to improve the protection of creditors and investors, especially minority shareholders and to punish fraud.

Also, a common accounting method, in line with the standard enunciated by the International Accounting Standards Board is crucial to a successfully operating market.

Further, enhanced disclosure requirements are vital for capital markets development. Both the shareholders and foreign investors should have access to full and reliable information. Especially, in transition economies there is a clear reluctance to disseminate information. Disclosure of information has value as long as the information affects investment decision. International rules specify standard information to be disclosed to investors. By enforcing these rule transitional CEE countries will ensure not only transparency, but also help integrate themselves into the global securities market. Moreover, for a stock market to exist, it is necessary to strengthen both supply of and demand for securities. Supply of securities can also be strengthened by attracting foreign listing on local exchanges.

UNIT 4 ON CORPORATE FINANCE IN GENERAL

CORPORATE FINANCE

Corporate finance is a branch of economics concerned with how businesses raise and spend their money, i.e., the acquisition and allocation of a corporation's funds, or resources, with the objective of maximizing shareholder wealth. In other words, companies spend or invest funds in projects that might make the firm more profitable, such as a new factory or an improved product. Corporate finance involves selecting and financing projects that maximise profits and make the best use of a company's funds.

However, major corporations are far too large to be owned by one individual. Instead they are owned by many people, called shareholders, who own shares of stock, which allows them to share in the company's profits. Each share of stock represents ownership of a portion of the firm and its possessions, or *assets.* Shareholders who possess a large number of shares own a larger portion of the company than those who possess only a few shares. Shares of stock are bought and sold on a number of stock exchanges. To manage a company, its shareholders elect a board of directors who hire key company executives and review their job performance.

TWO FUNCTIONS OF CORPORATE FINANCE

In the financial management of a corporation, funds are generated from various sources (i.e., from equities and liabilities) and are allocated (invested) for desirable assets.

Therefore, the first function of corporate finance refers to the generation of funds from both internal and external sources at the lowest possible cost to the corporation. Two main categories of resources are *equity* (i.e., owners' equity) and *liability*. Examples of equity are *proceeds* from the sale of stock, returns from investments, and retained earnings. Liabilities include *bank loans* or other *debt*, *accounts payable*, *product warranties*, etc.

And the second function of corporate finance - resource allocation – refers to the investment of funds with the intent of increasing shareholder wealth over time. Two basic categories of investments are current assets and fixed assets. Current assets include cash, inventory, and accounts receivable. Examples of fixed assets are buildings, real

estate, and machinery. In addition, the resource allocation function is concerned with intangible assets such as goodwill, patents, workers, and brand names. It is the job of a corporation's financial manager or managers to conduct both of the aforementioned functions in a manner that maximises shareholder wealth, or stock price.

THE ROLE OF FINANCIAL MANAGERS

It follows that financial managers must balance the interests of owners, or shareholders; creditors, including banks and bondholders; and other parties, such as employees, suppliers, and customers. For example, a corporation may choose to invest its resources in risky ventures in an effort to offer its shareholders the potential for large profits. However, risky investments may reduce the perceived security of the company's bonds, thus decreasing their value in the bond market and increasing the rate of interest that the firm must pay to borrow money in the future.

Hence, a business regards an investment as successful if it increases the wealth of the shareholders who own the company. This is accomplished when the firm earns profits and passes them back to the shareholders either in the form of *dividends* or as increases in the value or price of the stock. *Dividends* are a share of profits paid to shareholders as cash or as additional shares of stock. Profits or earnings that are not distributed to shareholders stay with the firm and are called retained earnings. These earnings increase the value of the stock because they increase the total amount of assets of the firm.

INVESTMENT DECISIONS

Investment decisions, that is, deciding what projects to invest in, are based on two criteria: the expected rate of return and the risk or uncertainty of achieving the expected rate of return. The project's rate of return, or simply its return, is a measurement of its profit.

A financial manager estimates the return based on forecasts of potential sales, expenses, and profits that might occur from an investment. The return is influenced by its risk. Expected rates of return are higher with risky projects because they must compensate for the project's uncertainty to attract investors. The company should accept any project that is expected to earn a higher return than shareholders can earn with another investment.

Firms also buy and sell entire businesses, sometimes with a mutual agreement to merge or combine two companies into one. In other cases one firm, the *buying firm,*

goes against the wishes of another firm's management, *the target firm,* and attempts a *takeover.* If the buying firm acquires enough of the target firm's stock, it can control the target firm's activities.

Investments require cash. There are three common ways a corporation may be able to raise this cash: by paying smaller dividends, by borrowing, or by selling more stock. A firm can finance projects by paying smaller dividends. It can then keep more of its profits as retained earnings and use them to fund its investments. A company can also choose to borrow money to fund its projects, either from a bank or directly from investors by issuing bonds. Selling stock is a third way companies can raise funds. A financial manager must consider factors other than cost when deciding how to raise money. For example, if a firm tries to raise new funds, the public will speculate about the company's plans. If investors think the plans are a bad idea, the company's stock price could fall.

DERIVATIVES: A VARIETY OF TOOLS WHICH HELP MANAGE THE RISK OF EVENTS OUTSIDE THE CONTROL OF A CORPORATION

Events outside the control of a corporation can affect the firm and its financing decisions. For example, a change in the interest rate can suddenly make borrowing money very inexpensive or very costly. A variety of tools, known as ***derivatives***, help manage the risk of such events occurring. Four important kinds of derivatives include: *(1) futures* - promises to buy or sell something in the future at a price that is agreed upon today; *(2) forwards* - similar to futures, but they are arranged directly between a firm and a bank; *(3) options* - give a firm the right to buy or sell something in the future at a price that is agreed upon today; and *(4) swaps* - involve firms swapping one set of payments for another.

1. READING FOR COMPREHENSION

(a) Answer the below given questions.

1. Define corporate finance.
2. State two functions of corporate finance.
3. Name two main categories of resources.
4. What do investments require?
5. Define derivatives.

(b) Decide if the following statements are true or false and correct the false ones.

	T	F
1. Corporate finance involves selecting and financing projects that minimise profits and make the best use of a company's funds.	☐	☐
2. In the financial management of a corporation, funds are generated from equities and liabilities and are allocated for desirable assets.	☐	☐
3. Since major corporations are far too large to be owned by one individual, they are owned by a board of directors, which allows them to share in the company's profits.	☐	☐
4. The two functions of corporate finance refer to the generation of funds from both internal and external sources at the lowest possible cost to the corporation and to the resource allocation.	☐	☐
5. Dividends are a share of profits paid to shareholders as cash or as additional shares of stock.	☐	☐
6. Retained earnings increase the value of the stock because they increase the total amount of liabilities of the firm.	☐	☐
7. The project's rate of return, or simply the risk or uncertainty of achieving the expected rate of return, is a measurement of its profit.	☐	☐
8. Merger is a combination of two or more businesses on an equal footing, resulting in the creation of a new entity, the shareholders of which mutually share the risks and rewards and no one party to the merger gains control over another.	☐	☐
9. Takeover is the buying of one company (target company) or most of its shares by a person or another company. If the buying company acquires enough of the target company's shares, it can control the target company's activities.	☐	☐
10. There are three common ways a corporation may be able to raise cash required for investments: by paying higher dividends, by lending, or by buying more stock.	☐	☐
11. Futures, forwards, options and swaps are the most common derivatives, which help manage the risk of occurrence of events outside the control of a corporation that can affect the firm and its financing decisions.	☐	☐

2. MATCHING EXERCISE

Match the terms on the left with the definition on the right.

1. Futures	(a)	A branch of economics concerned with the acquisition and allocation of a corporation's funds, or resources, with the objective of maximizing shareholder wealth.
2. Derivatives	(b)	The right to buy or sell a fixed quantity of a particular commodity, currency or security at a particular date at a particular price (exercise or striking price). Unlike futures, the the purchaser of an option *is not obliged* to to buy or sell at the exercise price and will do so only if it is profitable.
3. Corporate finance	(c)	An agreement to buy or sell a fixed quantity of a particular commodity, currency or security for delivery at a fixed date in the future at a fixed price. Unlike an option, a futures contract involves a *definite purchase or sale* and not an option to buy or sell, and therefore may entail a potentially unlimited loss.
4. Option	(d)	Financial contracts whose values are based on, or *derived* from, the price of an underlying financial asset or price: e.g, a stock or an interest rate. The most common are futures contracts and options.
5. Swap	(e)	Dealing in commodities, securities, currencies, etc., for delivery at some future date at a price agreed at the time the contract (called forward contract) is made.
6. Forward dealing	(f)	The exchange of a product or business asset for another, instead of money; e.g., currency swap, interest rate swap, etc.

3. PREPOSITIONS

Supply the missing prepositions in the below given text on *The Growth and Decline: Mergers and Consolidations (Tokyo - Japanese Mergers: Marriage in Name Only: Salarymen find it hard to shift their allegiance)*

Companies often grow by combining with other companies. One company may purchase all or part of another; two companies may merge by exchanging shares, etc.

From the financial manager's viewpoint, this kind of expansion is like any other investment decision: the acquisition should be made if it increases the acquiring firm's net present value as reflected in the price of its stock.

Here is another problem why structural reform is hard …… Japanese industry: employees are not good …… transferring loyalty …… a new company. Resentments between merger partners can fester …… years. At Bank of Tokyo-Mitsubishi, formed …… 1996, when Tokyo Bank merged …… Mitsubishi Bank, bigger but less prestigious institution, employees …… Tokyo Bank were outnumbered three …… one. Frustrated by Mitsubishi Bank's stodgy practices, many left; those that stayed were often sidelined. Insiders say there are still unofficial Tokyo Bank "societies" …… which they air grievance …… each other.

Nippon Steel, Japan's largest steel maker, had similar problems after it had been formed …… 1970 …… a merger between Yawata Iron and Steel and Fuji Iron and Steel even though the two had originally been part …… the same company, Japan Iron and Steel before it had been broken up before the World War II. Nippon Steel is said to have kept separate personnel departments …… the two sides …… years. To this day, it scrupulously, alternates its presidents between people …… Yawata and Fuji origin.

One reason why Japanese companies are prone …… post-merger discord is their need to save face. Even when one is clearly stronger than the other, companies insist that theirs is a merger …… equals. Preserving this balance creates false expectations.

4. TENSES

Fill in the blank spaces in the text with correct verb forms. Give the title to the below given passage.

Under intense competitive pressures, many companies …… (LOOK) at mergers and acquisitions at home and abroad …… (ENHANCE) shareholder value through rapid entry into new markets. There …… (BE) three important facts about …… (INTEGRATE) companies. The first …… (BE) that it can be a difficult, sensitive and complex process. Failure is hard …… (AVOID). The second …… (REFER) to the fact that a company …… (NEED) a disciplined framework for …… (ADDRESS) each integration project. And the third …… (BE) that the framework …… (BE) infinitely flexible …… (ALLOW FOR) the special requirements of the acquisition at hand.

A key goal of integration is …… (PRESERVE) the company's precious intellectual property, human capital, and entrepreneurial drive. Whether to integrate lightly or heavily …… (INVOLVE) weighing a host of factors. However, it …… (BECOME) clear that each acquisition has to be viewed as a unique integration challenge.

Review and discussion questions

The below given text deals with the management of investment risk. The main reason why individuals invest too conservatively or do not invest at all is fear of loosing money. A healthy respect for the dangers of financial markets is essential to investing, but too much fear, often driven by a lack of understanding, can be debilitating. The key to investing is not avoiding risk, but managing it intelligently. Accordingly, there are the following types of investing risks: business risk, financial risk, market risk, interest rate risk and liquidity risk. After reading the passage, try to answer the below given questions.

1. Business risk is the financial risk inherent in a particular company. Components of business risk include fluctuations in sales, cash flow, and earnings due to any multitude of causes, including poor management, economic downturns, or a highly competitive environment. The most extreme result of business risk is bankruptcy of the company in which investors receive partial or no payment of interest and principal on bonds and find their common stock worthless. Investments subjects to business risk are those based on corporations, such as common and preferred stocks and corporate bonds. There are two ways to guard a portfolio against business risk. The first measure applies whether a person has a single investment or 100 investments: Invest in financially stable companies with good records of increasing revenues, cash flow, and earnings. The second way to guard against business risk is to diversify a portfolio.
2. Financial risk relates to the level of debt used to finance a company. High level of debt comes with high obligations for principal and interest repayment. A company with bonds or bank loans, whose rates float with the prime or other interest rates, may be subject to huge increases in debt costs if interest rates increase. As with business risk, the most extreme result of financial risk is bankruptcy of the company.
3. Market risk is the result of momentum in the securities markets. These movements, or trends, are generally the result of changes in economic, political, or social conditions, or investor preferences. In many cases, though the business and financial risks and other prospects for a business do not change, market trends will affect the price of a security, sometimes drastically.
4. Inflation risk occurs when the dollars earned in interest or dividends and the principal returned on an investment have less purchasing power than those originally invested. In periods of rising prices, called inflation, it takes more money each year to purchase the same amount of goods and services.
5. Interest rate risk is the risk that interest rates will change after the purchase of an investment. Any investment purchased for its income stream is subject to interest rate risk. Included are bonds, marketable certificates of deposit, and stock purchased mainly for their dividends. The two types of interest rate risk are risk to principal and reinvestment rate risk.
6. Liquidity risk is the risk that an investment cannot be sold quickly at a reasonable price. In the event that you would need to raise cash for an emergency, selling investments with liquidity risk can cause significant losses in principal.

Questions

1. In your opinion, what is essential to investing? Is there a right time to invest or is it right to invest anytime?
2. There are many methodologies of evaluating country risk and various institutions deal with it, such as *Euromoney*, *Beri-index*, *Institutional investor*, *Business International*, *World Bank Group*, *International Monetary Fund*, etc. Find out what elements/factors they generally use to make their evaluations as to the credit potential of various countries.
3. Why do investors hesitate to invest in our country? Where would you place our country on the lists of country risk?

Enhancing your writing skills

I Translate the below given text from Serbian into English language.

Četiri značajne vrste derivata obuhvataju fjučerse, terminske ugovore ili forvarde, opcije i svopove. Ugovor o fjučersu predstavlja sporazum o kupovini ili prodaji tačno naznačene količine određene robe, valute, hartije od vrednosti, itd, po kome će se isporuka izvršiti u budućnosti na određeni dan po utvrđenoj ceni u momentu zaključenja ugovora. Za razliku od opcije, ugovor o fjučersu znači definitivnu kupovinu ili prodaju, a ne pravo (opciju) da se nešto kupi ili proda. Finansijskim fjučersima se trguje na tržištima (berzama) fjučersa, kao što su Međunarodno tržište za finansijske fjučerse i opcije u Londonu (LIFFE), Tržište za fjučerse i opcije u Londonu (FOX), Londonska berza derivata (LDE), itd.

Ugovor o forvardu se odnosi na trgovinu robom, hartijama od vrednosti, valutama, itd, sa isporukom koja će se obaviti na neki unapred određen budući dan po ceni koja je utvrđena u momentu zaključenja ugovora. Ovakav ugovor ograničava potencijalni rizik, ali i dobit za obe ugovorne strane. Ova vrsta trgovine se obavlja na terminskim tržištima i naziva se trgovanje na terminskom tržištu.

Pravo, ali ne i obaveza, da se kupi ili proda određena količina hartija od vrednosti, robe, deviza, itd, na utvrđeni dan po unapred utvrđenoj ceni. Za razliku od fjučersa, kupac opcije nije obavezan da kupi ili da proda po unapred utvrđenoj ceni, i to će

učiniti samo ako mu to donosi dobit. Ako rok iskorišćenja opcije istekne, kupac gubi samo premiju. Opcije sa hartijama od vrednosti kojima se trguje na berzi, kupuju se i prodaju na Međunarodnom tržištu za finansijske fjučerse i opcije u Londonu (LIFFE), a opcije na robne fjučerse se kupuju i prodaju na Londonskoj berzi robe (LCE).

Svop se odnosi na način na koji zajmoprimac može da prikupi onu vrstu sredstava na tržištu koje je za njega najpristupačnije i da ih zameni za sredstva koja su njemu potrebna, obično posredstvom banke. Svop kamatne stope predstavlja drugi uobičajeni način zamene, u kome zajmoprimci zamenjuju fiksnu kamatnu stopu fluktuirajućom kamatnom stopom.

II Translate the below given text from English into Serbian language.

Merger refers to the combining of two or more companies into a single corporation. In business, a merger is achieved when a company purchases the property of other firms, thus absorbing them into one corporate structure that retains its original identity. This differs from a consolidation, in which several concerns are dissolved in order to form a completely new company. In a merger the purchaser may make an outright payment in cash or in company stock, or may decide on some other arrangement such as the exchange of bonds. The purchaser then acquires the assets and liabilities of the other firms.

Mergers are often accomplished to revive failing businesses, to reduce competition, or to diversify production. In the U.S., however, fairly stringent antitrust laws are enforced to be sure that mergers do not result in monopolies.

Federal Trade Commission (FTC) is an independent agency of the U.S. government created by the Federal Trade Commission Act of 1914. The basic objective of the FTC is to promote free and fair trade competition in the American economy. The commission does so by investigating price-fixing agreements and other unfair methods of competition; prohibiting mergers and price discriminations that may substantially lessen competition or tend toward monopoly; investigating deceptive practices such as false advertising; and regulating packaging and labeling of consumer goods to prevent deception. It provides guidance to business and industry on what they may do under the laws administered by the commission. It also gathers and makes available to Congress, the president, and the public factual data on economic and business conditions.

UNIT 5 THE LAW OF CONTRACT AND THE LAW OF TORTS

TWO MOST IMPORTANT SUBCATEGORIES OF ENGLISH CIVIL LAW

In addition to *family law*, which includes the laws governing marriage, divorce and custody of children and *the law of property and of trusts*, governing ownership and rights of enjoyment, the creation and administration of trusts and the disposal of property on death, the **law of contract** and the **law of torts**, are also included and represent the two most important subcategories of English civil law. The former regulates, for instance, the sale of goods, loans, partnerships, insurance and guarantees, and the latter governs injuries suffered by one person at the hands of another; for instance, wrongs like negligence, libel, malicious prosecution, nuisance and trespass.

CONTRACT AND THE LAW OF CONTRACT

A **contract** is usually defined as a legally binding agreement between two or more parties which the courts will enforce. It emphasizes the most important element in all contracts – agreement. However, while every contract is based on an agreement of the parties, not every agreement between parties is necessarily a contract. In order that the agreement should be a contract the parties must have shown an intention that their agreement should have legal consequences. Family and social agreements such as where a husband agrees to pay house-keeping allowance to his wife will not be deemed to be contracts, while agreements of a commercial nature will always be presumed to be contracts.

ESSENTIAL REQUIREMENTS FOR AN AGREEMENT TO BE LEGALLY BINDING

Therefore, agreement arises as a result of offer and acceptance, but a number of other requirements must be satisfied for an agreement to be valid or legally binding:

a) The parties must have capacity to contract.
b) The parties must have intention to create legal relations.

c) The contract must comply with any formal legal requirements.

d) The contract must be legal, i.e., not one disapproved by the law.

CONTRACT WHICH DOES NOT COMPLY WITH THE ABOVE REQUIREMENTS

A contract which does not comply with the above requirements may be *void*, *voidable* or *unenforceable*.

- A **void contract** lacks one of the essential requirements and, in fact, does not exist at all, meaning that if the contract is void there is really no contract at all.
- A **voidable contract** is brought to an end if there is a flaw, such as fraud, misrepresentation, undue influence, and duress.
- An **unenforceable contract** is a contract that, although valid, cannot be enforced because it is neither evidenced in writing nor supported by a sufficient act of part performance.

Contracts in England may be oral, written, partly oral and partly written, or even implied from conduct. There are, however, some contracts which must be in writing, such as a *hire-purchase contract*, *bills of exchange*, *transfers of shares in a registered company*, etc.

However, since the Law of Contract in England and Wales and in Scotland differs in many ways, contracts have to state which law should apply in cases of dispute or breach of contract.

TORT AND THE LAW OF TORTS

In English law the term **tort** is used to denote wrongs committed by one citizen against another or omissions for which damages can be obtained in a civil court by the person wronged, other than a wrong that is only a breach of contract. The **law of torts** is mainly concerned with providing compensation for personal injury and property damage caused by negligence. It also protects other interests, however, such as defamation, personal freedom, commercial interests, etc. Therefore, it is concerned with civil liability as distinct from criminal liability. In other words, torts are less serious wrongs which are not punished by the state as in the case of crimes.

Contract and tort are related to one another; a trader who sells dangerous goods can be sued in negligence for injuries so caused and may also be held liable for a breach of contractual duty to see that his goods are of merchantable quality.

1. READING FOR COMPREHENSION

(a) Answer the below given questions.

1. Identify the main concerns of the family law and the law of property and of trusts.
2. State the two most important subcategories of English civil law.
3. Explain what is meant by the terms malicious prosecution, nuisance and trespass.
4. Define contract.
5. State the essential requirements for an agreement to be legally binding.
6. List the main categories of persons lacking the capacity to contract.
7. Identify contracts which do not comply with the above requirements.
8. State forms of contracts in England.
9. Define the term tort.
10. What is the law of torts mainly concerned with?

(b) Decide if the following statements are true or false and correct the false ones.

	T	F
1. English civil law consists of family law and the law of property and of trusts, the law of contract and the law of torts.	☐	☐
2. The law of torts regulates the sale of goods, loans, partnerships, insurance and guarantees.	☐	☐
3. Every contract is based on an agreement of the parties, and every agreement between parties is a contract.	☐	☐
4. The contract must be legal, i.e., one disapproved by the law.	☐	☐
5. The law of torts is mainly concerned with providing compensation for personal injury and property damage caused by negligence.	☐	☐
6. Torts are less serious wrongs which are not punished by the state as in the case of crimes.	☐	☐

(c) Tick the right answer.

1. *Law of contract is concerned with:*
   (a) The laws governing marriage, divorce and custody of children.
   (b) The sale of goods, loans, partnerships, insurance and guarantees, as well as breaches of contracts.
   (c) Ownership and rights of enjoyment, the creation and administration of trusts and the disposal of property on death.
2. *Capacity to contract is:*
   (a) Competence to enter into a legally binding agreement.
   (b) Incompetence to enter into a legally binding agreement.
   (c) Competence to enter into an illegal agreement.
3. *Void contract is:*
   (a) A contract that is brought to an end if there is a flaw, such as fraud misrepresentation, undue influence, and duress.
   (b) A contract that, although valid, cannot be enforced because it is neither evidenced in writing nor supported by a sufficient act of part performance.
   (c) A contract that lacks one of the essential requirements and, in fact, does not exist at all.
4. *Tort denotes:*
   (a) Wrongs committed by one citizen against another or omissions for which damages can be obtained in a criminal court by the person wronged, other than a wrong that is only a breach of contract.
   (b) Wrongs committed by one citizen against another or omissions for which damages can be obtained in a civil court by the person wronged, other than a wrong that is only a breach of contract.
   (c) Wrongs committed by one citizen against another or commissions for which damages can be obtained in a civil court by the person wronged, other than a wrong that is only a breach of contract.
5. *The law of torts is concerned with:*
   (a) Civil liability as distinct from criminal liability punished by the state as serious wrongs.
   (b) Civil liability as distinct from criminal liability punished by the state as nuisance and trespass.
   (c) Civil liability as distinct from criminal liability not punished by the state as in the case of crimes.

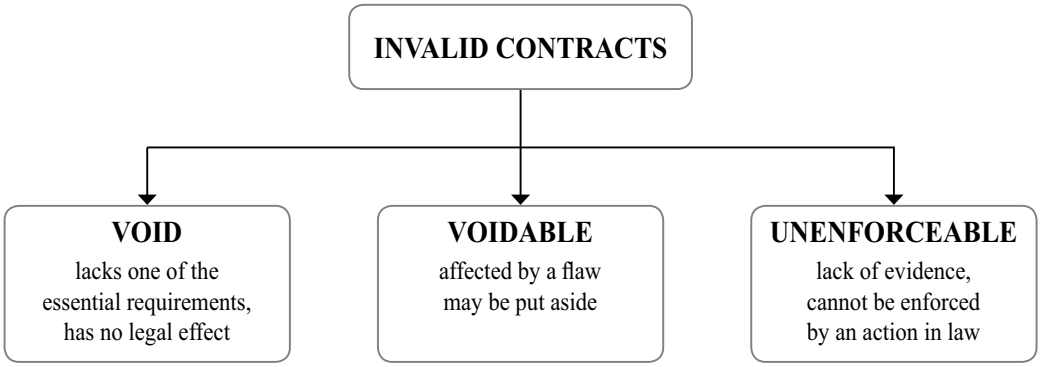
6. *Hire-purchase contract is:*
   (a) A method of buying goods in which the purchaser does not take possession of goods upon paying an initial instalment of the price and obtains ownership of goods when he has paid all the instalments.
   (b) A method of buying goods in which the purchaser takes possession of goods upon paying an initial instalment of the price and obtains ownership of goods when he has paid all the instalments.
   (c) A method of buying goods in which the purchaser takes possession of goods when the contract is signed.

(d) Use the words in the list to complete these statements.

breach of contract	***capacity to contract***	***family law***	***nuisance***
legally binding	***fraud***	***trespass***	***performance of contract***

1. For an agreement to be ……..……..... or valid the contracting parties must have …….. .
2. The carrying out of obligations under contract is called the …… .
3. …… is a false representation by means of statement or conduct made knowingly or recklessly in order to gain material advantage.
4. An actual failure by a party to a contract to perform his obligations under that contract or an indication of his intention to do so is called the ……... .
5. ……. means indirect injuries to a person's property or his enjoyment of property.
6. An area of law dealing with family relations, including marriage, divorce, adoption, paternity, custody and support is called …… .
7. ……. means direct interference with the personal goods or land of another.

(e) Use the diagram to complete the below given statements.



1. A contract that does not comply with the essential ……. is ……... .
2. If a contract ……..… one of the …… requirements of a contract, it is ……. .
3. A …… contract may be brought to an end at the …….. of one of the parties and if it is …….. by a flaw.
4. An …… contract cannot be …… by an action in ……... because the …… wishing to enforce it …….. some particular …….. .

(f) Use the appropriate linking word or phrase to complete these statements.

however	***although***	***as a result of***	***unless***	***in spite of***

1. Legal aid will not be granted …….. the Committee thinks the applicant has a reasonable case in law.
2. Barristers are primarily concerned with advocating cases in court; some of them, ……., specialize in paper work.
3. …….. solicitors are primarily concerned with office work, they often specialize in advocating cases in the inferior courts.

4. Applicants are required to make some contribution towards the costs themselves……. the Legal Aid Fund.

5. ……. the impartial approach to cases barristers are appointed court judges.

(g) Use "*because*" to join each fact with the proper reason from the below table.

FACTS	REASONS
People are reluctant to take a matter to law	its extent has increased over the years
They are afraid of tricky lawyers	they are on supplementary benefit
It is relatively easy to obtain legal aid	they fear they may be involved in heavy costs
Some people get free assistance	they may make them look foolish

(h) Explain the difference in the meaning in the following pairs of sentences.

1. (a) He *must have protected* his neighbours from physical harm.
(b) He *should have protected* his neighbours from physical harm.

2. (a) Even if they *would have done* the same, the court *could not use* their influence to improve the standards.
(b) Even if they *could have done* the same, the court *would not use* their influence to improve the standards.

3. (a) They *should have known* that the counsel was immune from liability.
(b) They *must have known* that the counsel was immune from liability.

4. (a) The defendant *might have foreseen* the danger.
(b) The defendant *should have foreseen* the danger.

5. (a) In order that the agreement *should b*e a contract the parties *must have shown* an intention.
(b) In order that the agreement *should be* a contract the parties *should have shown* an intention.

6. (a) The agreement *might have been* valid.
(b) The agreement *should have been* valid.

7. (a) If we *could have proved* a breach of contractual duty to see that his goods are of merchantable quality, we *would sue* a trader selling dangerous goods for injuries.

(b) We *would have sued* a trader selling dangerous goods for injuries if we *could prove* a breach of contractual duty to see that his goods are of merchantable quality.

8. (a) He *must have seen* to the merchantable quality of his goods.

(b) He *should have seen* to the merchantable quality of his goods.

2. MATCHING EXERCISES

Match the terms on the left-hand side with the definitions on the right-hand side.

(a) Nuisance	(1) It refers to the malicious institution of legal proceedings against a person.
(b) Fraud	(2) A contract that is brought to an end if there is a flaw, such as fraud misrepresentation, undue influence and duress.
(c) Undue influence	(3) A wrongful direct interference with another person or with his possession of land or goods.
(d) Duress	(4) A false representation of a statement or conduct made knowingly or recklessly in order to gain a material advantage.
(e) Trespass	(5) Influence that prevents someone from exercising an independent judgement with respect to any transaction, such as a contract or gift procured by the exercise of undue influence.
(f) Voidable contract	(6) It is an activity or state of affairs that interferes with the use or enjoyment of land or rights over land or with health, safety comfort, or property of the public at large.
(g) Malicious prosecution	(7) It refers to pressure, especially actual or threatened physical force, put on a person to act in a particular way.

3. ARTICLES

Fill in the blank with the appropriate article or leave it blank to indicate that no article is necessary in the below given text on the *Legal System In Serbia*.

Serbia has …… civil law system: …… courts interpret legislation instead of considering preceding rulings on …… issue (…… former being …… case in …… other continental European countries and …… latter – common law system – in Great Britain, Ireland and …… USA).

…… Parliament is …… supreme legislator. Certain bodies with executive powers, such as ministries, are competent to pass by-laws in specific areas. By-laws must be in compliance with parliamentary legislation. Legislative acts and by-laws come into force after being published in …… official gazettes.

…… court system consists of …… constitutional court, courts of general jurisdiction and courts of special jurisdiction. Courts of general jurisdiction are as follows: …… Supreme Court, appellate courts, county/district courts and municipal courts.

…… *Supreme Court* is the highest court in Serbia and acts as …… court of second instance to …… Higher Commercial Court and …… Administrative Court. …… *Appellate courts* are the new institutions and are to be …… second instance courts to municipal courts and county/district courts. *County/district courts* are established to cover …… territory of …… county/district. In some matters they are courts of second instance to municipal courts and in some matters they act as courts of first instance. *Municipal courts* are usually courts of first instance and are established to cover one or more municipalities. For example, there are 5 municipal courts in Belgrade covering 11 municipalities. …… jurisdiction of municipal courts covers all matters not relating to commercial matters.

Commercial courts adjudicate commercial matters and …… *Higher Commercial Court* is …… second instance court for these matters. …… *Administrative Court* is …… new institution for adjudicating administrative matters, …… formation of which is postponed until 2007.

4. PREPOSITIONS

Supply the missing prepositions in the below given text on the *Legal Profession*.

The legal profession is generally organised as individual practice and small firms. Some individual practitioners and firms/offices specialise …… particular areas of law. The presence …… international firms is expected …… the near future.

According …… the Advocacy Law, only Bar members may provide legal services, which is why foreign law firms may not establish law offices. Instead, they create companies …… consulting services and hire local attorneys …… the basis …… a service agreement, to provide services …… their clients. Limited partnership firms are not permitted to be created, either. As a result, foreign law firms are reluctant to enter this market.

Review and discussion questions

Trespass, libel, negligence and nuisance are wrongs that are included in torts. If these legal rights have been infringed, a defendant can be sued for compensation in tort action. In the Middle Ages, any wrongful act was called trespass. There are three kinds of trespasses: to the person, to goods and to land. Trespass to the person is remedied by an action for *negligence*. Touching, moving or carrying them away is considered trespass to goods, while entering land is regarded trespass to land. Under the term nuisance is meant an activity or state of affairs that interferes with the use or enjoyment of land or rights over land or with health, safety, comfort. Individuals are prevented

from harassing their neighbours by the Protection from Harassment Act, referred to as nuisance neighbours.

However, we shall focus on negligence. After reading the given passage, try to answer the below given questions.

1. Your name is Claudia Richards. You recently graduated from law school and are an associate at the Philadelphia law firm of Marshall, Scalia, and Connor.
2. You rented a beautiful one bedroom apartment on the second floor of The Atrium at a rental price of $2,000 per month. The apartment is equipped with every modern convenience and has a large balcony overlooking the city. The balconies to all apartments on the second floor are adjoining but are separated by brick walls that are about four feet high. You moved in on April 1 of this year and paid your first month's rent and a security deposit to Mr. Crusher.
3. You work long hours. However, because the spring was warm, you've been able to spend time on your balcony. You could enter your balcony through a sliding glass door that opened with a special combination lock. On April 15, you found that the combination lock no longer worked and reported it to Mr. Crusher. You offered to get a locksmith to fix it immediately but Mr. Crusher reminded you that the lease stipulated that only the landlords could make repairs in the apartment. You asked him how long it would take to repair the lock, but he didn't know.
4. Several weeks later it still remained broken, and you again reminded Mr. Crusher, but to no avail. In addition, since mid-May you have complained to Mr. Crusher about your next-door neighbour, Jack Shade. Shade always had his door open and stared at the residents and their visitors as they walked in the hallway. Mr. Crusher asked Shade to keep his door closed. Shade apologized and complied with Mr. Shade request.
5. The balcony door remained broken, so you did not pay your rent for June. On June 31, Mr. Crusher visited your apartment and demanded that you pay the two months' rent. He brought a large wooden dowel with him to secure your door until he could repair it. He said he was sick and tired of your complaints.
6. You were exhausted from your encounter with Mr. Crusher and spent part of the evening on your balcony with a glass of wine. You were tired and went to bed early, forgetting to put a wooden dowel in the balcony door. One hour later you heard a loud noise and the sound of the sliding door opening. Someone rushed in and assaulted you. You were unconscious for a couple of minutes as a result of beating. During that time, the intruder stole several valuable items and then escaped.
7. You suffered physical pain and emotional distress. Immediately after the attack, Mr. Crusher repaired the lock. The police have not arrested the perpetrator of the crime, but the prime suspect is Jack Shade.

Questions

1. Is Mr. Crusher responsible for the attack? Should he compensate you for your losses and injury?
2. Do you have a claim in negligence against Mr. Crusher for failing to protect you from the criminal act? Has it anything to do with the law of torts?
3. Do you have any potential defenses if Mr. Crusher sue you for the unpaid rent?

Enhancing your writing skills

Translate the below given text from Serbian into English language.

SPORAZUM O POSLOVANJU I UPRAVLJANJU ZAKLJUČEN IZMEĐU XX HOTELS CORPORATION I YY KORPORACIJE
Ime Grada, 1. januar 2002. godine

SPORAZUM O POSLOVANJU I UPRAVLJANJU

OVAJ SPORAZUM, koji je na dan 1. januara 2002. godine, zaključen između **YY**, korporacije koja je organizovana i postoji prema zakonima ime Države, ***sa sedištem u*** ulici …… 00, P.P. 000, ime Grada, ime Države (***u daljem tekstu "Kompanija***"), i **XX HOTELS CORPORATION**, korporacije koja je organizovana i postoji prema zakonima ime Države ……, ***sa sedištem u*** ulici …… 00, ime Države (u daljem tekstu "***XHC***");

PREDSTAVLJA PREDMET SPORAZUMA

IMAJUĆI U VIDU da Kompanija poseduje prvoklasan luksuzan, međunarodni hotel, poznat pod imenom ……, koji se nalazi u Ulici …… 00, ime Grada, ime Države; zemljište na kome se ***gore pomenuti*** hotel nalazi, što je detaljnije opisano *u s tim u vezi priloženom* Prikazu A, zajedno sa hotelskom zgradom i drugim građevinama

različite vrste i namene, koje Kompanija ***na tom mestu*** podigne, sa svim ***objektima***, ***sporednim delovima nepokretnosti***, pravima i povlasticama Kompanije ***na to*** zemljište i ***na takvom*** zemljištu, i sa nameštajem, ***pokućstvom*** i ***nepokretnostima po nameni*** i opremom (prema definicijama *u daljem tekstu*) na takvom posedu, *u daljem tekstu* će se pod zajedničkim imenom označavati kao ***Hotel***; i

IMAJUĆI U VIDU da obe strane žele da XHC nadgleda, kontroliše i rukovodi poslovanjem i upravljanjem Hotela, a za račun Kompanije i kao član međunarodnog hotelskog lanca (***Lanac***).

OTUD, PREMA TOME, i s obzirom na *ovde* sadržane ***premise*** i ***uzajamne ugovore***, sporazumne strane *ovim*, i *u vezi s tim*, ugovaraju sledeće:

ČLAN I
ANGAŽOVANJE XHC

1.1. Angažovanje: ***Prema terminima*** i ***saglasno*** uslovima navedenim *u vezi s tim*, Kompanija *ovim* imenuje XHC ***(kao)*** i angažuje XHC ***za***, a XHC *ovim* prihvata, nadgledanje, rukovođenje i kontrolu upravljanja i poslovanja Hotela ***za račun*** Kompanije.

1.2. Početni termin (vremenska odredba): Osim u slučajevima predviđenim u članu XV *ovog sporazuma*, ovaj Sporazum ***stupa na snagu*** 1. januara 2002. godine, i ***biće na snazi*** za vreme početnog termina, koji traje od gore navedenog datuma i završava se u ponoć, po Hotelskom lokalnom vremenu, 31. decembra, koji prvi usledi posle desete (10.) godišnjice ***Datuma početka***, u značenju definisanom *u daljem tekstu* ("***Početni termin***"). XHC će predati Kompaniji pismeno obaveštenje kojim se potvrđuje ***Datum početka***, koji će biti ***konačan*** i ***obavezujući*** za strane *ovog* sporazuma. (*obe sporazumne strane*)

1.3. Obnovljeni termini: XHC će imati pravo da produži ovaj Sporazum na dva (2) dodatna termina od po pet (5) godina (svaki takav dodatni petogodišnji termin, "*Obnovljeni termin*", i oba takva *Obnovljena termina* zajedno sa *Početnim terminom*, mogu kao takvi da se prekinu ranije *pod uslovima navedenim u daljem tekstu*, i nazivaju se "***Termin***"). ***Obnovljeni termini slede jedan za drugim***, s tim što prvi *Obnovljeni termin* ***počinje*** (*stupa na snagu*) ***odmah po isteku*** prvog *Početnog termina*, a drugi *Obnovljeni termin* ***odmah po isteku*** prvog *Obnovljenog termina*. Smatra se da je XHC automatski ***iskoristila svoje pravo da obnovi*** ovaj

Sporazum prema ***terminima*** Odeljka 1.3. osim ako nije u pismenoj formi ***obavestila*** Kompaniju ***o suprotnom***, najmanje devedeset (90) dana pre datuma kad taj *Obnovljeni termin* treba da počne.

1.4. Pravni odnosi među sporazumnim stranama: Sporazumne strane *u vezi s tim* ***ugovaraju*** da, osim u slučajevima kad su u Sporazumu ***izričito precizirana ograničenja***, XHC ima potpunu i apsolutnu kontrolu i ***slobodu*** u ***upravljanju i vođenju poslova*** Hotela, kao i u ***vršenju*** svih *dole navedenih* usluga. Prema ***odredbama*** ovog Sporazuma, XHC može, u ispunjavanju svojih *dole navedenih obaveza*, ***slobodno*** i ***neometano*** da upravlja i rukovodi Hotelom, ***bez uznemiravanja i prekidanja***, osim u slučaju da Hotel oduzmu ***nadležni organi vlasti***; i Kompanija će ***po svaku cenu*** i ***o svom trošku preduzeti sve odgovarajuće mere*** i ***pokrenuti sve postupke***, ***sudske ili druge***, ili se ***uzdržati od preduzimanja svake radnje***, da bi za XHC ***obezbedila*** takva prava i slobode. Kompanija i XHC ugovaraju da će XHC u vezi sa vršenjem svih operativnih usluga za Hotel, uključujući i zapošljavanje celokupnog osoblja, ***nabavku*** svih roba, pića i zaliha i proizvoda (u meri u kojoj XHC ili njeni ***Pridruženi članovi*** kao što je definisano *u daljem tekstu*, vrše bilo koju vrstu nabavke kao što je *dole navedeno*) i sa ugovaranjem usluga potrebnih za poslovanje Hotela, delovati samo kao ***imenovani*** predstavnik Kompanije i isključivo ***za račun*** Kompanije i ***na račun*** Kompanije. XHC neće ni pred kim ***davati obaveštenja*** o svom odnosu sa Kompanijom ili ***predstavljati svoj odnos*** sa Kompanijom ***suprotno*** *onom što je nadeno* u **Članu I** ovog Sporazuma, i Kompanija i XHC mogu o tome ***izvestiti*** ili ***obavestiti*** sve svoje ***saradnike*** sa kojima posluju i mogu da preduzmu sve razumne korake za sprovođenje ***namere*** izražene u ovom Članu I.

ČLAN V
BANKOVNI RAČUNI, BUDŽET I KREDIT

5.1. Bankovni račun: Sva ***novčana sredstva stečena iz*** *poslovanja* Hotela prima XHC ***za račun*** Kompanije i ta sredstva se deponuju od strane XHC na operativni račun u ***lokalnoj*** banci ili bankama ***takvog tipa*** koje i Kompanija može da ***imenuje*** (***Operativni račun***). XHC ***nije obavezna da naknadi dugovanja*** niti ***snosi odgovornost*** za gubitke koji mogu nastati usled ***nelikvidnosti***, ***grubog nehata u vršenju profesionalne dužnosti*** ili ***neizvršavanja obaveza*** od strane banke ili banaka koje vode *Operativni račun*.

5.2. Operativni račun: XHC ***obezbeđuje*** da se na *Operativnom računu* ***nalazi stalno deponovan*** onaj deo novčanih sredstava Hotela koji je potreban za plaćanje uobičajenih tekućih troškova poslovanja Hotela (uključujući i razumnu rezervu za te svrhe) i ***refundiranje*** (*isplatu troškova*) i ***naknadu štete*** XHC. Svi čekovi ***za podizanje novčanih sredstava sa*** *Operativnog računa* ***moraju da nose*** potpis lica ili potpise lica koje je ***naznačio*** XHC.

5.3. Opšti račun: Sva ***novčana sredstva stečena iz*** *poslovanja* Hotela, ***nakon*** što se izvrši isplata XHC-u i nakon isplate svih operativnih troškova, deponuju se na *opšti račun* Kompanije kod one banke ili kod onih banaka koje Kompanija može da ***naznači*** (***Opšti račun***). Svi čekovi ***za podizanje sredstava sa*** Operativnog računa ***moraju da nose*** potpis lica ili potpise lica koje je ***naznačila*** Kompanija.

5.4. Operativni budžet: (a) XHC ***dostavlja*** Kompaniji budžet za Hotel ***najmanje*** 45 dana pre početka svake Fiskalne godine tokom *(za vreme trajanja) Termina* (***Operativni budžet***). *Operativni budžet* koji ***daje prikaz predviđenih procena*** *Ukupnog prihoda*, *Troškova i profita po sektorima*, *Troškova poslovanja*, *Prilagođenog neto dohotka* **(***koji se obračunava oduzimanjem svih poslovnih rashoda i ostalih odbitaka dozvoljenih zakonom)* i *Predloženih kapitalnih troškova* za predstojeću Fiskalnu godinu, ***ima istu formu*** i sadrži ***takvu*** vrstu informacija ***kakve su one*** sadržane u ***predviđenim procenima*** koje se tiču ***sličnih po veličini i tipu hotela u Lancu***. Uz to, XHC može na kraju svakog kvartala da dostavi Kompaniji revidirani *Operativni budžet*. Kompanija ***se obvezuje*** da svaki *Operativni budžet* koji joj dostavi XHC ***razmotri savesno*** (*bona fide – u dobroj volji*) i da *na njega* odgovori u roku od trideset (30) dana od prijema *u vezi sa istim*. XHC ***savesno obavlja konsultacije sa*** Kompanijom u vezi sa *Operativnim budžetom* i obezbeđuje Kompaniji odgovarajuće ***prateće*** informacije, objašnjenja i podatke na kojima se zasniva *Operativni budžet*. ***U slučaju da*** Kompanija ima ***primedbe*** na iznose navedene u bilo kojoj kategoriji prihoda i rashoda sadržanim u *Operativnom budžetu*, ona ***u tom smislu o tome*** pismeno obaveštava XHC u roku od trideset (30) dana, u kome se jasno ***navode*** posebni razlozi za ***prigovor***. Ako se takav prigovor ne ***dostavi*** pre isteka navedenog perioda, XHC ***nepobitno smatra*** da se Kompanija slaže sa iznosima navedenim za svaku kategoriji prihoda i rashoda. ***Ukoliko*** sporazumne strane ne mogu ***da reše svoj spor***, ***bilo koja od strana*** ima pravo da ***takva sporna pitanja podnese na arbitražu*** nekoj međunarodno priznatoj računovodstvenoj ili konsultantskoj firmi, sa značajnim

iskustvom u hotelskom konsaltingu i ***opravdanosti investicija i izvodljivosti radova*** *(studija fizibiliteta)*, koju prihvataju obe strane (osim postojeće Nezavisne javne računovodstvene Firme, prema definiciji navednoj *u daljem tekstu*), čija je odluka konačna i obvezujuća za obe strane *u sporu*. Jedino pitanje o kome u arbitraži ***takve vrste treba da se donese odluka***, jeste da li je određena odluka koju je XHC doneo u vezi sa spornim pitanjem razumna u svetlu okolnosti koje su tada bile ***preovlađujuće***. I Kompanija i XHC imaju pravo da takvoj firmi obezbede sve materijale i informacije za koje bilo koja od njih smatra da su relevantne za donošenje ***pravedno tražene*** odluke. I na osnovu tog materijala, sopstvenog iskustva i ***rada sličnih*** hotela koji ***posluju prema*** istim ili *sličnim* ***uslovima poslovanja***, takva firma donosi odluku u roku od trideset (30) dana od dana dostavljanja spornog pitanja. Obe strane *u sporu* ***snose*** troškove arbitraže ***u podjednakom iznosu***. ***Do donošenja odluke*** arbitraže XHC ima pravo da upravlja Hotelom u skladu sa *Operativnim budžetom* koji je podneo; ali, ***pod uslovom da,*** u slučaju da se arbitražom odluči da je odluka XHC u vezi sa kategorijom troškova bila nerazumna, XHC ***u najkraćem mogućem roku*** mora da ***izvrši takve izmene***, uključujući i takve ***korektivne gotovinske isplate***, ***koje su neophodne*** *za usklađivanje Operativnog budžeta sa* arbitražnom odlukom. Obe strane u sporu razumeju, priznaju i sporazumne su u tome da *Operativni budžet* predstavlja samo procenu i da ***nepredviđene okolnosti***, kao što su, mada nisu ograničeni samo njih, troškovi koji se tiču radne snage, materijala, usluga i roba, nesrećni slučajevi, delovanje zakona ili ekonomski i tržišni uslovi, mogu da ***onemoguće sprovođenje*** *Operativnog budžeta*. Kompanija dalje priznaje i slaže se da XHC može da ***prekorači*** iznose u bilo kom *Operativnom budžetu*, nastale kao rezultat (i) hitnih troškova, bez obzira na to da li su ***predviđeni ili nepredviđeni***, neophodnih za zaštitu života i/ili imovine ili (ii) grejanja, osvetljenja, energije, osiguranja i taksi.

UNIT 6 ON BUSINESS LAW IN GENERAL

BUSINESS LAW

Business law is the body of rules, whether by convention, agreement, or national or international legislation, governing the dealings between persons in commercial matters. It falls into two distinctive areas: (1) the regulation of commercial entities by the laws of company, partnership, agency, and bankruptcy and (2) the regulation of commercial transactions by the laws of contract and related fields.

COMPANY LAW IN CIVIL LAW COUNTRIES AND COMMON-LAW COUNTRIES

In civil-law countries, company law consists of statute law; in common-law countries it consists partly of the ordinary rules of common law and equity and partly statute law. Two fundamental legal concepts underlie the whole of company law: the *concept of legal personality* and the *theory of limited liability*. Nearly all statutory rules are intended to protect either creditors or investors.

VARIOUS FORMS OF BUSINESS ENTITIES

There are various forms of legal business entities ranging from the sole trader, who alone bears the risk and responsibility of running a business, to the registered company with limited liability and to multinational corporations. In a partnership, members "associate", forming collectively an association in which they all participate in management and sharing profits, bearing the liability for the firm's debts and being sued jointly and severally in relation to the firm's contracts or tortious acts. All partners are agents for each other.

AGENT AND THE ROLE OF AGENTS

An agent is a person who is employed to bring his principal into contractual relations with third parties and various forms of agency. A *universal agent* is one who is appointed to handle all the affairs of his principal; a *general agent* is one who has authority to represent his *principal* in all business of a certain kind; and *special agent* is one who is appointed for a particular purpose and given only limited powers.

BANKRUPTCY

It is inevitable that in certain circumstances business entities might be unable to perform their financial obligations. With the development of the laws surrounding commercial enterprises, a body of rules developed relating to *bankruptcy*: when a person or company is insolvent (i.e., unable to pay debts as and when they fall due), either he or his creditors may petition the court to take over the administration of his estate and its distribution among creditors. Three principles emerge: to secure fair and equal distribution of available property among the creditors, to free the debtor from his debts, and to enquire into the reasons for his insolvency.

SPECIFIC BODIES OF LAW WITHIN THE SCOPE OF BUSINESS LAW

Business law touches everyday lives through every contractual dealing undertaken. Contractual relations, as the cornerstone of all commercial transactions, have resulted in the development of specific bodies of law within the scope of business law regulating (1) sale of goods, i.e., terms and conditions, the effects of performance, and breach of such contracts and remedies available to the parties; (2) the carriage of goods, including both national and international rules governing insurance, bills of lading, and arbitrations; (3) consumer credit agreements; and (4) labour relations determining contractual rights and obligations between employers and employees and the regulation of trade unions. Business law, on national and international levels, is continually evolving with new areas of law developing in relation to consumer protection, competition, and computers.

ARBITRATION

Modern commercial practice relies to a growing extent on arbitration to handle disputes, especially those that arise in international transactions. There are several reasons for the growing use of arbitration. The procedure is simple, it is more expeditious, and it may be less expensive than traditional litigation. The arbitrators are frequently selected by a trade association or business group for their expert understanding of the issues in the dispute. The proceedings are private, which is advantageous when the case involves trade or business secrets. In many legal systems, the parties can authorise arbitrators to base their decision on equitable considerations that the law excludes. Finally, when the parties are from different countries, an international panel of arbitrators may offer a greater guarantee of impartiality than would a national court.

1. READING FOR COMPREHENSION

(a) Answer the below given questions.

1. Define business law and identify its two distinctive areas.
2. State and explain two fundamental legal concepts underlying the whole of company law.
3. Identify forms of legal business entities.
4. What do agents do?
5. Define the primary objects of bankruptcy legislation.
6. Identify specific bodies of law within the scope of business law.
7. Define arbitration and state reasons for the growing use of arbitration.

(b) Decide if the following statements are true or false and correct the false ones.

	T	F
1. Business law is the body of rules, weather by convention, agreement, or national or international laws, governing the dealings between persons in legal matters.	☐	☐
2. Two fundamental legal concepts underlie the whole of company law: the concept of legal personality and the theory of limited liability.	☐	☐
3. An agent is a person who is employed to bring his principal into business relations with third parties and various forms of business.	☐	☐
4. Bankruptcy refers to a situation in which a person or company is solvent, i.e., able to pay debts as and when they fall due.	☐	☐
5. Business law, on national and international levels, is continually devolving upon new areas of law developing in relation to consumer protection, competition, and computers.	☐	☐
6. Modern commercial practice relies to a growing extent on arbitration to handle disputes, especially those that arise in national transactions.	☐	☐
7. There are several reasons for the growing use of arbitration: the procedure is simple, it is more expeditious, and it may be less expensive than traditional litigation.	☐	☐

(c) Tick the right answer.

1. *Two fundamental legal concepts underlie the whole of company law:*
   (a) The concept of legal personality and the theory of unlimited liability.
   (b) The concept of legal personality and the theory of limited liability.
   (c) The concept of natural personality and the theory of limited liability.
2. *A universal agent is:*
   (a) One who is appointed for a particular purpose and given only limited powers.
   (b) One who has authority to represent his principal in all business of a certain kind.
   (c) One who is appointed to handle all the affairs of his principal.
3. *The primary objects of bankruptcy legislation are:*
   (a) To secure fair and equal distribution of available property among the creditors, to free the debtor from his debts, and to enquire into the reasons for his insolvency.
   (b) To secure unfair and equal distribution of available property among the creditors, to free the debtor from his debts, and to enquire into the reasons for his solvency.
   (c) To secure unfair and unequal distribution of available property among the creditors, to free the debtor from his debts, and to enquire into the reasons for his insolvency.
4. *Modern commercial practice:*
   (a) Relies to a decreasing extent on arbitration to handle disputes, especially those that arise in international transactions.
   (b)Relies to a growing extent on arbitration to handle transactions, especially those that arise in international disputes.
   (c)Relies to a growing extent on arbitration to handle disputes, especially those that arise in international transactions.
5. *There are several reasons for the growing use of arbitration:*
   (a)The complexity of procedure, expeditousness, low costs, privacy of proceedings, inequitable considerations, and a greater guarantee of impartiality.
   (b)The simplicity of procedure, expeditousness, low costs, privacy of proceedings, equitable considerations, and a greater guarantee of impartiality.
   (c)The simplicity of procedure, inexpediency, low costs, privacy of proceedings, quitable considerations, and a greater guarantee of partiality.

(d) Find the words in the text that mean the following.

1. The settlement of a dispute by an arbitrator
2. A disagreement as to rights
3. To give authority to act

(e) Fill in the blanks using either *per* or *in* in the text below.

a) In 1995 there were 15,607 serious crimes registered in Miami ……. 100,000 residents of the city.

b) In 1981 unemployment in Britain stood at 10%; one worker …… ten was employed. This ratio is often written as 1 : 10.

(f) Fill in the blanks using *totaling* or *came to* or *amounted to* in the sentences below.

a) At the end of 1991 the number of life sentences in England ……. 3,100.

b) Sales for December …… 100,000.

c) The overall Japanese financial system has debts ……. $349 billion.

(g) Read this passage about commercial arbitration.
As you read, underline the most appropriate word from the context.

Where a { problem / dispute / contradiction } arises in connection with a commercial contract the parties may, instead of { submitting / giving / directing } the dispute to the jurisdiction of a court of law, submit their differences to arbitration. The reasons for the popularity of commercial arbitration are the following:

(a) Arbitration may be quicker than { proceedings of court / court proceedings / court decisions } in obtaining a result, but opinions differ.

(b) Arbitration is generally much cheaper for the parties.

(c) The arbitrator selected by the parties can combine { judicial / legal / general } knowledge with a thorough understanding of the practical problems of a particular { type / group / branch } of commerce.

(d) Arbitration proceedings may be conducted { in public / in private / in peace }, and unpleasant publicity may be thus avoided. A matter may be referred to arbitration in any of the following ways:

(1) The court may refer to arbitration any question arising in court proceedings which, in the opinion of the judge, is { characteristic for / suitable for / typical for } this treatment, e.g. any issue which requires the study of technical, accounting, or similar specialised problems.

(2) Certain acts of Parliament { provide for / ask for / look for } the submission of disputes to arbitration, e.g., under the Patents Act 1977 disputes between an employee-inventor and his employers would be dealt with in this way.

(3) The parties may have agreed to submit disputes to arbitration by means of an arbitration agreement. Such an agreement may be { looked into / entered into / gone into } when a dispute has actually arisen, or it may be made in respect of future disputes which may or may not arise.

2. MATCHING EXERCISES

Match the terms on the left-hand side with the definitions on the right-hand side.

(a) Joint and several liability	(1) It refers to the state of being a legal person, i.e., a body of persons or an entity (as a corporation) considered as having many of the rights and responsibilities of a natural person, and especially the capacity to sue or be sued.
(b) Sale of goods	(2) It means inability to meet debts as they mature.
(c) Principal	(3) It refers to credit extended by merchants or banks to finance the purchase of consumer goods (as home appliances) or services (as travel or hotel accommodation).
(d) Legal personality	(4) It refers to joint liability imposed on tortfeasors that allows enforcement of the entire judgement against any of the tortfeasors.
(e) Arbitration	(5) A person who engages another to act for him or her subject to his or her general control or instruction.
(f) Consumer credit	(6) A contract by which seller transfers or agrees to transfer the ownership of goods to a buyer in exchange for a money price.
(g) Bankruptcy	(7) It refers to the determination of a dispute by one or more independent third parties (the arbitrators) rather than by a court.

3. PREPOSITIONS

Supply the missing prepositions.

Where the machinery exists, a dispute can be put …… a tribunal: administrative, domestic and tribunal of inquiry. The first is set up to deal …… a particular issue, and exist …… the ordinary courts …… law, but their decisions are subject …… judicial control. An example is the Industrial Tribunal established to hear and rule …… disputes …… employers and employees or trade unions, etc. A body

that exercises jurisdiction …… internal affairs …… a particular profession or association …… powers conferred either …… statute or …… contract …… members is called the domestic tribunal. Its decisions are also subject …… judicial control. And the third is a tribunal appointed …… investigate a matter **……..** public importance, such as national disaster or alleged corruption **……..** government that is a source …… public disquiet but is not the subject …… ordinary proceedings …… ordinary courts.

…… all other cases people can take legal action, unless the courts consider the dispute trivial or …… their jurisdiction.

4. ARTICLES

Fill in the blank with the appropriate article or leave it blank to indicate that no article is necessary.

Most civil disputes – between private individuals, and organisations, public companies and sometimes government - are settled by negotiations between …… parties themselves or their solicitors. It is only when disputing parties are unable to reach …… agreement among themselves that …… law becomes actively involved. There are three types of legal machinery for producing …… settlement: arbitration, tribunals and court action.

…… determination of …… dispute by one or more independent third parties (…… arbitrators) rather than by …… court is called arbitration. Arbitrators are appointed by …… parties in accordance with …… terms of …… arbitration agreement (or, in default, by …… court), which is …… contract to refer …… dispute to arbitration. Such agreements are of two kinds: those referring to …… existing dispute to arbitration and those relating to disputes that may arise in …… future. …… judgement of …… arbitrator is called award.

Review and discussion questions

Foreign investors interested in doing business in Serbia have also to take into consideration the choice of domestic and foreign law, as well as the issue of arbitration respected by domestic courts. After reading the passage, answer the below given questions.

1. Any party bringing a lawsuit is required to pay court tax at the time it is filed. In general, the duty is levied in relation to the amount claimed, but cannot exceed a certain sum. Not only a charge on rulings is levied, but also some other costs, which, *inter alia*, may include costs of evidence, witness fees, the remuneration of lawyers, etc. As part of the final judgement, the court decides which party is to stand the costs and to what extent. Generally, the losing party stands all the costs, including the costs of the opposite party.

2. Since it may take several years to receive a final judgement, many business entities opt for arbitration, making provisions for it in their contracts. The Serbia and Montenegro Civil Procedure Code currently regulates the applicability and procedures of arbitration. There is also a Foreign Trade Court of Arbitration at the Serbian Chamber of Commerce in Belgrade. It is international, general (all conflicts arising from international business relations are considered), open (domestic and foreign citizens are on its list), independent and autonomous. Its judgements are final. Specific rules of procedure can be agreed between the parties and specialist arbitrators can be chosen. The United Nations Commission on International Trade Law (UNICITRAL) book of rules may be applied.

3. A Law on International Commercial Arbitration has been drafted and its adoption is expected soon. As the draft was created in accordance with the UNICITRAL Model, it will widen the range of disputes subject to arbitration.

4. Serbia and Montenegro are signatories to all significant arbitration conventions including the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, The European Convention on International Commercial Arbitration and the Washington Convention on Settlement of Investment Disputes.

Questions

1. What do foreign investors have to take into consideration?
2. Explain the investor considerations.
3. Why do many business entities opt for arbitration?

Enhancing your writing skills

Translate the below given texts from Serbian language into English language.

(a) Kompanijsko pravo

Sve britanske kompanije moraju da budu registrovane. Kompanije mogu da budu javne ili privatne. Kompanija mora da zadovolji tri uslova pre nego što može da postane javna kompanija sa ograničenom odgovornošću. Ona mora:

- da bude ograničena brojem akcija i da poseduje akcijski kapital;
- da izjavi u svom memorandumu da će biti javna kompanija; i
- da zadovolji određen minimalan iznos potrebnog kapitala. (£50,000)

Sve ostale britanske kompanije su privatne kompanije i zabranjeno im je da iznose svoje akcije na javnu prodaju.

Zakoni koji se tiču komapnija imaju za cilj da zadovolje regulative o poslovnim organizacijama, da obezbede otvorena tržišta i da pruže veću zaštitu onima koji žele da ulažu u kompanije ili da posluju s njima.

(b) Reforma zakona o preduzećima u našoj zemlji

Zakon o preduzećima nije Zakon o privrednim (trgovačkim) društvima, kao što je to bio u svojoj prvoj verziji ranih devedesetih. Od donošenja Zakona o preduzećima sredinom 1996. godine, čijih se 95% odredbi odnosi na trgovačka (privredna) društva, proteklo je relativno mnogo vremena – osam godina. U međuvremenu su se desile

velike promene, koje su već same po sebi dovoljan razlog za usvajanje našeg novog Zakona o privrednim (trgovačkim) društvima. Time bismo ušli u tzv. drugu fazu tranzicijskog zakonodavstva, kroz koju su poslednje dve godine prošle i druge zemlje u tzv. tranziciji i neke razvijene zemlje.

U svetu razvijenih zemalja poseban značaj se pridaje sledećim događajima: Francuska je 2001. godine sa svojim "*Nouvelles Regulations Economiques*" ozbiljno inovirala svoj Zakon o trgovačkim društvima; Nemačka je 1998. usvojila Zakon o kontroli i transparentnosti poslovanja akcionarskih društava. Uz to, pred usvajanjem je i novi Zakon o transparentnosti i publicitetu akcionarskih društava, koji treba da poboljša Trgovinski zakonik. Pored toga, sada se radi i na tzv. Evropskom kodeksu o kontroli poslovanja korporacija, koji bi trebalo da zameni ili zaokruži slične nacionalne kodekse (samo u Velikoj Britaniji ih ima jedanaest, u Francuskoj tri, a u Nemačkoj je nedavno donet Jedinstven kodeks o kontroli poslovanja korporacija). Konačno, tu su i nedavno (1999.) usvojena Načela Organizacije za ekonomsku saradnju i razvoj (OECD) o kontroli poslovanja korporacija i bave se sledećim pitanjima: 1) zaštitom prava akcionara; 2) obezbeđenjem jednakog tretmana akcionara, uključujući i manjinske i inostrane, kao i efikasnu zaštitu njihovih prava; 3) očuvanjem prava i interesa ostalih lica koja imaju interes u trgovačkom društvu (zaposleni, poverioci, klijenti, itd.); 4) objavljivanjem i transparentnošću svih bitnih pitanja u vezi s poslovanjem društava kapitala, posebno javnih društava; i 5) dužnostima i odgovornostima uprave društava kapitala. Zbog poznatih berzanskih krahova (*Enron*, *Word Com*, itd.), i Njuroška berza je nedavno pokrenula kampanju za novu i oštriju regulativu o kontroli poslovanja korporacija.

Koliko je nama poznato, na nivou Evropske unije trenutno se iz ovog domena razmatraju prevashodno sledeća pitanja: (1) unapređenje informisanja akcionara i poverilaca od strane uprave (uključujući i objavu plata uprave); (2) jačanje pravnog položaja akcionara, posebno putem uvođenja posebnog istražnog postupka; i (3) redefinisanje obaveza uprave, sa posebnim osvrtom na slučaj nezakonite trgovine.

Translate the below given texts from Serbian language into English language.

(a) International Law vs. Private International Law

International law means public international law as distinct from private international law or the conflict of laws. The former is the system regulating the interrelationships of sovereign states and their rights and duties with regard to one another. In

addition, certain international organisations (such as the United Nations), companies and sometimes individuals (e.g. in the sphere of human rights) may have rights and duties under international law.

International law deals with such matters as the formation and recognition of states, acquisition of territory, war, the law of the sea and of the space, treaties, treatment of aliens, human rights, international crimes and international judicial settlement of disputes.

In respect of the settlement of disputes between states international arbitration was given a more permanent basis by the Hague Conventions of 1899 and 1907, which contained rules of arbitration. The 1899 Conventions created the Permanent Court of Arbitration, the importance of which was lessened by the establishment of the Permanent Court of Justice in 1922 and its successor the International Court of Justice founded after the Second World War.

On the other hand, the name private international law, which is generally used in countries of European-continental tradition, and occasionally also in the United Kingdom, seems to indicate that it is a part of international law - that is that system of law that is superior to all sovereign states and that, at least in theory, is uniform throughout the world.

Private international law or conflict of laws may be broadly defined as the part of the national law of a country that establishes rules for dealing with cases involving a foreign element. For example, if a contract is made in England but is to be fulfilled abroad, it will be necessary to decide which law governs the validity of the contract. This is known as the question of choice of law.

Namely, it is the body of rules indicating which territorial system of law should be chosen for the adjudication of a case having contacts with more than one territory. It is very common to include judicial jurisdiction over foreign persons or objects, recognition of foreign judgements and other procedural matters representing foreign elements. Generally, under the 1980 Rome Convention (in force from April 1, 1991), the parties' choice of law in a written contract is respected. Sometimes the courts must also decide whether or not they have jurisdiction to hear the case and whether or not to recognize a foreign judgement, such as a divorce obtained abroad.

(b) Choice of Law and Jurisdicition/Foreign Judgements

If one of the contracting parties is a foreign national, Serbian Law on Resolving Conflict of Laws with Regulations of other Countries (LRCL) allows the contracting

parties to choose a foreign law to be applied to their contract. Parties may also agree that any conflict arising out of their contract shall be resolved before a foreign court of arbitration. In a case where the contracting parties have no specific agreement on the issue, the governing law and competent court shall be determined as it is prescribed by the LRCL.

Foreign judgements or arbitration awards are recognised and enforced unless the subject is a matter exclusively under the jurisdicition of domestic courts or is contrary to public policy.

Part II

Audit

UNIT 7 ON ACCOUNTING AND AUDIT IN GENERAL

ACCOUNTING

Accounting is the process of identifying, measuring, recording, and communicating economic information about an organisation or other entity for decision-making purposes. Information relating to the financial position of an organisation is presented on a balance sheet, while disclosures about operating results are displayed on an income statement. Information relating to an organisation's liquidity – namely, how it obtains and spends cash – is shown on a statement of cash flows. The three most important areas of accounting are auditing, income taxation, and non-business organisations.

CERTIFIED PUBLIC ACCOUNTANT OR CHARTERED ACCOUNTANT

Accounting is performed by a CPA. What do these three letters mean to the professional world? They mean you have passed all parts of a very difficult accountancy examination of one of the recognised accountancy bodies. They mean you have the knowledge, skills and abilities to be a trusted business advisor to your clients or employer. They mean you feel comfortable with the latest technology. They mean you are an ethical individual who can provide an independent viewpoint. Once you have become a CPA, most states require you to take a specified amount of continuing professional education courses annually to retain your professional licence to practice.

AUDIT

A company's financial statements are ordinarily prepared by its own accountants. Outsiders' review or audit is the examination, by an independent accountant, of the financial data, accounting records, business documents, and other pertinent documents of an organisation to evaluate the accuracy of its financial statements. In most countries, including the United States, these outside auditors are selected by the company's shareholders. Three basic kinds of audits include operational audits, compliance audits, and audits of financial statements.

AUDITOR

Audit is ordinarily performed by professionally qualified, independent accountants who bear the title of CPA (USA) and CA in UK. Their primary task is to investigate the company's accounting data and methods carefully enough to permit them to give their opinion that the financial statements present fairly the company's position, results and cash flow. In other words, auditors are involved in collecting evidence by means of compliance tests and substantive tests.

In English-speaking countries, public auditors are usually certified, and high standards are encouraged by professional societies. Most European and Commonwealth nations follow the example of the United Kingdom, where government-chartered organisations of accountants have developed their own admission standards. Other countries follow the pattern in the United States, where the states have set legal requirements for licensing. Most countries have specific agencies or departments charged with the auditing of their public accounts, such as the General Accounting Office in the United States.

EXTERNAL AUDIT

External audit is an audit of an organisation carried out by an auditor who is external to, and independent of, the organisation. An external audit is used to give the public a true statement of a company's financial position. It is made at least once a year by public accountants who are not regular employees of a company. The external auditors make sure that the company has followed proper accounting procedures in its financial records and statements. They compare the current financial statements with those of the previous year to determine whether the statements are calculated consistently. If they are not, they present a distorted picture of the company's financial position. The auditors also inspect real estate, buildings and other assets to see if their value is overstated. Debts and liabilities are also checked to see if they have been understated.

INTERNAL AUDIT

Whereas an external audit is almost always concerned with financial matters, this may not necessarily be the case with an internal audit. Private business and all levels of government conduct internal audits of accounting records and procedures. They are conducted by a company's own personnel to uncover bookkeeping errors and also to check the honesty of employees. In other words, internal audit is an audit that an organisation carries out on its own behalf, normally to ensure that its own internal

controls are operating satisfactorily so that the external auditors can have faith in the accounts produced by the organisation. Examples referring to internal control, which ensures that opportunities for fraud are minimised, range from requiring more than one signature on certain documents, use of special passwords, handling of computer files, etc. In large companies, internal audit is an ongoing procedure.

Internal auditors are therefore, to a large extent, key to an organisation's success in today's business world. They provide objective, independent, professional advice to all levels of management. They are explorers, reporters and analysts. They discover, interpret and question. They bring to the organisation a sense of well-being and comfort, providing the secure knowledge that if there are glitches, they will find them.

AUDITORS' REPORT

When an auditor is satisfied that the company's accounts are in order, he issues a written report in accordance with the terms of his appointment. Such written report is called audit report or auditors' report. In other words, it is a signed written document prepared by the auditor, which presents observations, findings and conclusions (opinions) arrived at as a result of the audit. It is the published result of the audit.

In the UK the term also means, in relation to the limited liability company, an auditor's statement stating expressly whether, in his opinion the *accounts* on which he is reporting give a true and fair view of the position and results of the company and have been prepared in accordance with the UK Company Acts. In the US and Canada it also means the written report in which the auditor expresses his opinion as to whether the *financial statements* are presented fairly in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

1. READING FOR COMPREHENSION

(a) Answer the below given questions.

1. Differentiate accounting from audit.
2. State the difference between the term *accounts* as used in British terminology and the term *financial statements* as used in American terminology.
3. Identify the three most important areas of accounting. Explain.
4. What does CPA stand for?
5. Identify the primary task of auditors.

6. Differentiate internal audit from external audit.
7. Who are internal auditors and what is the role of internal auditors?
8. Define the term audit report. Does the term audit report have the same meaning in the UK and in the United States and Canada? Explain.

(b) Decide if the following statements are true or false and correct the false ones.

	T	F
1. Many users of financial statements are able to clearly differentiate (financial) accounting from auditing.	☐	☐
2. Financial accounting is mainly concerned with reports (typically produced on a quarterly or an annual basis) published for the use of persons within the organisation.	☐	☐
3. Managerial accounting is the process of producing reports (typically on a monthly basis) for the use of the management of the organisation in planning and monitoring activities.	☐	☐
4. Balance sheet or income statement is a statement of the total assets and liabilities of an organisation at a particular date, usually the last day of the accounting period.	☐	☐
5. Audit is the examination, by an independent accountant, of the financial data, accounting records, business documents, and other pertinent documents of an organisation to evaluate the accuracy of its financial statements.	☐	☐
6. Income statement is an account in the books of an organisation showing the profits or losses made on its business activities with the addition of the appropriate expenses over a certain period of time, usually one year.	☐	☐
7. Statement of cash flow is a statement showing the inflows and outflows of cash for a business over a financial period.	☐	☐
8. Audit is the identifying, measuring, recording, and examination, by an accountant, of the financial data, accounting records, business documents, and other pertinent documents of an organisation to evaluate the accuracy of its financial statements.	☐	☐

9. External audit is an audit of an organisation carried out by an auditor who is external to, and independent of, the organisation and internal audit is an audit that an organisation carries out on its own behalf, normally to ensure that its own internal controls are operating satisfactorily so that the external auditors can have faith in the accounts produced by the organisation. ☐ ☐

10. Auditors' report is a report by the internal auditors appointed to audit the accounts of a company or other organisation. ☐ ☐

(c) State what the *Introductory*, *Scope* and *Opinion* paragraphs include, respectively, in view of below given table and the two *Independent Auditors' Reports Samples.*

The *auditor's standard unqualified report* states that the examination was performed in conformity with *generally accepted auditing standards (GAAP)* and by expressing an opinion that the client's financial statements are presented fairly in conformity with the generally accepted accounting principles. An unqualified opinion can only be expressed when the independent auditor has formed the opinion on the basis of the examination made in accordance with the generally accepted accounting principles.

The standard unqualified report consists of three paragraphs.

Independent Auditor's Report	
Paragraph 1	The first paragraph tells the responsibilities of management and the auditors in general and lists the areas of the financial statements that were audited. It is referred to as the **introductory paragraph.**
Paragraph 2	The second paragraph describes the nature of the audit that it was conducted in accordance with *generally accepted auditing standards* and provides reasonable assurance that the financial statements are free of material misstatement. It is called the **scope paragraph**
Paragraph 3	The final paragraph is the **opinion paragraph.** The third paragraph gives the auditor's opinion on the financial statements of the company being audited. This is simply an opinion, not a guarantee of accuracy. The auditors' report is addressed to the persons who retained the auditors.

SAMPLE I

Callahan, Durant and Simms & Co.
Columbia Maryland
Certified Public Accountants
March 1, 2002

To the Board of Directors and Stockholders of ABC Company

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of ABC Company as of December 31, 2001, and the related statements of income, retained earnings, and cash flow for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for your opinion.

In our opinion, the financial statements referred to the above present fairly, in all material respects, the financial position of ABC Company as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with the generally accepted accounting principles.

Callahan, Durant, Simms & Co.
Columbia, Maryland
Certified Public Accountants
March 1, 2002

SAMPLE II

Graham, Cottrill, Jackson, Batts & Hostetter, LLP
Certified public Accountants
110 East Hillcrest Street
Orlando, Florida 3280
(407: 843-1681)
(S00; 342-2720)
Facsimile (407) 423-3156

The Audit Committee
The Institute of Internal Auditors, Inc.
Altamonte Springs, Florida

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidating statement of financial position of The Institute of Internal Auditors, Inc. ('the Institute') as of December 31, 2003, and the related consolidating statements of activities and cash flows for the year then ended. These consolidating financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these consolidating financial statements based on our audit. The consolidating financial statements of The Institute of Internal Auditors, Inc. for the year ended December 31, 2002, were audited by Graham, Cottrill, Jackson, Batts & Hostetter, P.A. The report was dated February 21, 2003, and expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America Those standards require that, we plan and perform the audit to obtain reasonable assurance about whether the consolidating financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidating financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the consolidating financial position of The Institute of Internal Auditors, Inc. as of December 31, 2003, the consolidating changes in its net assets and its consolidating cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

GRAHAM, COTTRILL, JACKSON, BATTS & HOSTETTER, LLP

February 19, 2004

2. MATCHING EXERCISES

Match the terms referring to the accounting policies on the left-hand side with the explanations on the right-hand side.

(a) Accounts payable	1. The amounts owing to a business from customers for invoiced amounts. They are classed as current assets on the balance sheet.
(b) Inventory	2. Business assets purchased for continued use in manufacture.
(c) Investment	3. A direct tax on income, generally imposed on an annual basis, on the income of individuals and (legal) entities.
(d) Accounts receivable	4. Costs incurred, by which new products and new forms of old products are brought into being through technological innovation. It is an integral part of economic planning, both by government and by private industry.
(e) Fixed assets	5. Receivables and payables of a long-term and short-term nature denominated in foreign currencies.
(f) Income taxes	6. The purchase of capital goods such as plant and machinery in a factory in order to produce goods for future consumption.
(g) R&D expenses	7. In the USA, the equivalent of the UK stock, i.e., products and supply of an organisation on hand or in transit at any time.
(h) Foreign currency transactions	8. The amounts owed by a business to suppliers (e.g. for raw materials). They are classed as current liabilities on the balance sheet.

3. ARTICLES AND PREPOSITIONS

Fill in the blanks (marked by a single line) with the appropriate article and preposition (marked by a dotted line).

International accounting standards

The impossible dream

International accounting standards are trying to cross the Atlantic

Why won't America recognize international accounting standards? This is ____ question that F. Bolkestein, ____ missioner …… ____ European Union's single

market, plans to put …… ____ Securities and Exchange Commission …… May. Although America has long promised to allow foreign companies …… its capital markets if they prepare their accounts according …… ____ international rules, it has not yet delivered. To list their shares …… ____ New York Stock Exchange or elsewhere, overseas companies must still produce reconciliation …… America's generally accepted accounting principles (GAAP).

Credibility …… America matters …… ____ International Accounting Standards Board (IASB), ____ London-based private body is responsible …… devising international standards. If it cannot get ____ world's biggest capital market to respect its rules, companies will be less inclined to follow them. Worse, they might, like Daimler Chrysler, decide to submit GAAP accounts and bypass international standards altogether. Although ____ IASB may lay down any rules it likes, it has no power to enforce them. ____ body was made to look especially weak recently, when Senator Carl Levin published _____ e-mail from Enron, ____ collapsed energy-trading company, suggesting that its executives expected to be able to pay ..... influence …… ____ IASB's standards.

Ed Jenkins, chairman …… ____ Financial Accounting Standards Board (FASB), ____ GAAP standard-setter, argues that international standards are less comprehensive than GAAP. America relies less …… broad principles than …… detailed and prescriptive rules. ____ IASB inherited its standards ..... ____ IASC, a body set up in 1973 that had to take …… account all ____ views ..... ____ many countries represented …… its board. Because ____ IASC could not get everybody to agree, many standards allow different accounting treatments. Another problem is ____ uneven way that standards are applied.

_____ IASB believes that _____ furor surrounding _____ bankruptcy of Enron should give it more …… _____ hearing …… America. International rules would have forced it to report more …… its special-purpose vehicles. That all European-listed companies will have to use international accounting standards by 2005 is another boost. _____ IASB has begun _____ process …… improving its standards, some of which it admits are flawed.

4. TENSES

Fill in the blanks in the text with correct verb forms.

PricewaterhouseCoopers (www.pwc.com) …… (BE) one of the world's leading providers of professional services. Its aim …… (BE) to assist clients …… (BUILD) value, …… (MANAGE) risk, and …… (IMPROVE) performance. Currently, its worldwide net revenue …… (BE) approximately USD 14.7 billion. *PricewaterhouseCoopers* …… (DRAW ON) the expertise of more than 120,000 people in 139 countries and …… (PROVIDE) a full range of business services to leading global, regional and local companies and public institutions worldwide.

PricewaterhouseCoopers in Serbia and Montenegro …… (PROVIDE) a full range of assurance, tax and business advisory services. Clients in Serbia and Montenegro …… (INCLUDE) local state-owned and private enterprises, central government bodies, and leading international corporations in Serbia and Montenegro.

PricewaterhouseCoopers's services in Serbia and Montenegro …… (INCLUDE): the preparation of financial statements in accordance with the IAS and other recognised accounting standards, such as UK GAAP or US GAAP; audit services

pursuant to International Standards of Auditing (ISA) and other generally accepted auditing standards; audit related services in accordance with ISA; and compliance audits (Statutory, Security Commission and National Bank of Serbia).

Its broad knowledge and experience …… (ENABLE) *PricewaterhouseCoopers* …… (OFFER) advisory services as well. Since it …… (EXPERIENCE) in …… (WORK) with clients during times of dramatic economic and financial turbulences and changes, it can anticipate the impact of Serbia and Montenegro's reform efforts on business. Due to its strong relationships with key local organisations and ministries, *PricewaterhouseCoopers* is able to resolve many issues which, *inter alia*, …… (INCLUDE), implementation of IAS/IFRS, establishment of accounting procedures, implementation of internal controls and procedures, evaluation of accounting systems and internal controls, debt restructuring, business investigations and internal audit, basic knowledge of Forensic Accounting (*Steps in Fraud Investigation, Hedging and Hedge Accounting*), corporate finance including *Mergers and Acquisitions*, *Privatisation, Feasibility Studies and Business Plans*, insolvency and liquidation, etc.

Advice on business and tax …… (BE) also …… (PROVIDE) by *PricewaterhouseCoopers*. These services …… (INCLUDE), *inter alia*, corporate tax advice …… (MINIMISE) liabilities, tax compliance: risk management, customs duty issues, personal tax advice, labour regulations, human resources services, etc.

Review and Discussion questions

As foreign investors interested in doing business in Serbia need to know legal framework referring to accounting practices and audit requirements, so do you in order to discuss and answer the below given questions. For this, you will need to know something about the aforementioned. This is why we offer some guidelines.

The Law on Accounting and Audit was adopted on 27 December, 2002 and has been in force as of January 2003. Some articles, however, shall become effective as of January 2004 [implementation of *International Accounting Standards* (IAS)/ *International Financial Reporting Standards* (IFRS)].

1. The criteria for company classification are crucial in determining the implications of the new law. One of the major criteria that the Law includes is the *size of the company*:

Medium	(1)	Average number of employees:	50-250;
	(2)	Annual total income:	EUR 2-10 millions in CSD equivalent
	(3)	Average assets value:	EUR 1-5 millions in CSD equivalent
Small	(1)	In the value of at least two criteria are lower than those for Medium.	
Large	(1)	In the value of at least two criteria are lower than those for Medium.	

2. The next refers to *IAS/IFRS*. Both the International Accounting Standards and the International Financial Reporting Standards are obligatory for legal entities: for banks and other financial institutions, effective as from 1 January, 2003, and for companies as from 1 January, 2004.

3. The third refers to *annual financial statements*.

(1) Balance sheet;

(2) Income statement;

(3) Cash flow statement;

(4) A report on changes in equity;

(5) Notes to the financial statements.

For small companies only the balance sheet and income statement are obligatory.

4. *Submission of financial statements* is the fourth criteria. Only annual financial statements must be prepared (as at 31 December), and they must be submitted to the National Bank of Serbia. The annual financial statements of an entity must be submitted by 28 February, consolidated financial statements by 30 March, and approved financial statements by 30 June. In addition, all companies which require an audit must publish their financial statements, together with the auditor's opinion, e.g. on the website.

An exception to the rule (on preparing annual financial statements at 31 December) relates to subsidiaries of foreign companies whose financial year

differs from the calendar year. They may prepare and submit financial statements coterminous with the financial year of the parent. However, approval from the Ministry of Finance is required.

Another exception relates to entities undergoing a change of status, such as merger, liquidation and bankruptcy. Such entities are required to prepare financial statements at the date the procedure concerned is completed.

5. The fifth has to do with *audit requirements*. The audit of annual financial statements for large and medium-sized companies is obligatory.

While rotation of auditors of medium-sized companies is compulsory after five years, for large-sized companies it is necessary after three years.

6. *Chart of accounts and bookkeepers* is the next. Records must be kept in accordance with the Chart of Accounts. The accounting books must be kept by a professionally qualified person.

7. And the *requirements for preserving records* are the last. Salary records which contain important information about employees, must be kept permanently; financial statements for 50 years; the general ledger for 10 years; and supporting documentation for 5 years. Financial institutions are obliged to keep data on payment clearance for 5 years.

Questions

1. Define investor considerations regarding accounting practices and audit requirements.
2. The accounting literature written in English language distinguishes alternative accounting terms for the unique accounting term in Serbian language. These different terms in English for the same accounting term in the Serbian language have often placed a dilemma as to its translation and proper accounting statement. State the two accounting terms in accounting literature written in English and give the proper translation in Serbian language.
3. What about audit and auditors in our country?
4. Are foreign audit firms a threat to domestic audit firms? Support your view.
5. Would you rather be an internal or external auditor? State your reasons.

UNIT 8 GENERAL OUTLINES ON THE INTERNATIONAL STANDARDS ON AUDITING

HISTORY AND DEVELOPMENT OF INTERNATIONAL STANDARDS FOR ACCOUNTING AND AUDITING

The history and development of international standards for accounting and auditing trails back all the way to the late 1960s, but never have they reached greater prominence than today as the world moves closer towards international convergence. Groundwork for an international set of standards for auditing began in 1969 with the publication of a number of reports focusing on international audit by the Accountants International Study Group, comparing the situation in Canada, the U.K., and the U.S.A. A few years later, the establishment of the International Accounting Standards Committee in 1973 generated many calls for a similar body to be set up on the audit front. In the late 1970s, the Council of International Federation of Accountants (IFAC) created the International Auditing Practices Committee (IAPC). The first International Standard on Auditing (ISA) was issued in 1991, and this has remained the series to the present day.

INTERNATIONAL STANDARDS ON AUDITING

International Standards on Auditing are developed by the International Auditing and Assurance Standards Board of International Federation of Accountants. With the growth of global capital markets, high quality internationally recognised auditing standards are seen to be essential for the effective and efficient functioning of the markets. In Europe, for example, the European Federation of Accountants is urging the European Union to require the use of ISAs by 2005, the same date when the use of IAS becomes compulsory.

WHAT DOES THE TERM AUDITOR MEAN?

The term auditor is used throughout this AUS (Auditing Standards). Such reference is not intended to imply that a person performing an audit or audit related

service need necessarily be the auditor of the entity, nor that the service being provided is an audit. The term is used to indicate that the work is required to be performed and the report prepared by persons who have adequate training, experience and competence in auditing.

WHAT DOES THE TERM AUDIT MEAN?

Audit means a service where the auditor's objective is to provide a high level of assurance through:

(a) the issue of a positive expression of an opinion that enhances the credibility of a written assertion about an accountability matter ("attest audit"); or

(b) the provision of relevant and reliable information and a positive expression of opinion about an accountability matter where the party responsible for the matter does not make a written assertion ("direct reporting audit").

FINANCIAL AND NON-FINANCIAL INFORMATION

Accountability matters to which audit and audit related services can be applied relate to a range of financial and non-financial information comprising:

(a) General purpose financial reports.

(b) Special purpose financial reports.

(c) Other financial information, for example the terms of a takeover bid, individual components of a financial report or profit forecasts.

(d) Compliance with specified conditions governing an entity's programmmes, operations or activities. The conditions may be external, for example the requirements of legislation, regulations, rules, ordinances, ministerial directives, contracts and other agreements, or internal, such as management directives.

(e) Whether the resources of an entity have been acquired with due regard to economy and are being applied in an efficient and effective manner towards the achievement of its objectives.

(f) Other non-financial information, for example environmental reports, newspaper circulation figures and reports on the adequacy of internal control.

EXTERNAL AUDITORS

It is recognised that external auditors, whether in the private or public sector, act and report in accordance with their mandates, which may be elected in legislation or regulation, or established by contract. Mandates specify what is required of the auditor and provide the auditor with the authority to carry out the work and to report. It is possible that the requirements of a particular mandate may differ from those of the auditing pronouncements.

INTERNAL AUDITORS

The requirements of the auditing pronouncements regarding organisational independence will be taken to be complied with, in relation to those audits and audit related services ordinarily provided by an internal auditor, if those services are carried out without the direct influence of the management whose organisational areas are being audited. In relation to achieving a high level of independence, the organisational status of the internal auditor is very important, as is the level of management to whom they are responsible. A properly appointed and qualified audit committee would greatly contribute to the achievement of organisational independence by an internal auditor.

1. READING FOR COMPREHENSION

(a) Answer the below given questions.

1. Explain briefly the history and development of international standards for accounting and audit.
2. What do abbreviations IFAC and IAPC stand for?
3. Define International Standards on Auditing?
4. What does the term auditor mean when used throughout the AUS?
5. Define the term auditor?
6. What do we mean when we say financial and non-financial information?
7. Differentiate external auditor from internal auditor.

(b) Decide if the following statements are true or false and correct the false ones.

	T	F
1. The history and development of international standards for accounting and audit trails around all the way to the late 1960s, but never have they reached lesser prominence than today as the world moves closer towards international divergence.	☐	☐
2. Grounds for an international set of standards for auditing began in 1969 with the publication of a number of statements focusing on international audit by the Accountants International Study Group, likening the situation in Canada, the U.K., and the U.S.A.	☐	☐
3. The term auditor is used throughout this AUS, which reference is not intended to imply that a person performing an audit or audit related service need necessarily be the auditor of the entity, nor that the service being provided is an audit.	☐	☐
4. The term is used to indicate that the work is required to be performed and the report prepared by persons who have inadequate training, experience and incompetence in auditing.	☐	☐
5. Audit means a service where the auditor's object is to provide a high level of assurance.	☐	☐
6. It is recognised that external auditors, whether in the private or public sector, act and report in accordance with their mandates, which may be elected in legislation or regulation, or established by contract.	☐	☐
7. The requirements of the auditing announcements regarding organisational dependence will be taken to be complied with, in relation to those audits and audit unrelated services ordinarily provided by an external auditor, if those services are carried out with the direct influence of the management whose organisational areas are being audited.	☐	☐

(c) Tick the right answer.

1. *The Council of International Federation of Accountants created:*

   (a) The first International Standard on Auditing

   (b) The International Auditing Practices Committee.

   (c) The Auditing Standards.

2. *With the growth of global capital markets:*

   (a) Low quality internationally recognised auditing standards are seen to be essential for the effective and efficient functioning of the markets.

   (b) High quality nationally recognised auditing standards are seen to be essential for the effective and efficient functioning of the markets.

   (c) High quality internationally recognised auditing standards are seen to be essential for the effective and efficient functioning of the markets

3. *Audit means a service where the auditor's objective is to provide a high level of assurance through:*

   (a) Attest audit and direct reporting audit.

   (b) Attest audit and indirect reporting audit.

   (c) Attest audit and reporting audit.

4. *It is recognised that external auditors:*

   (a) Whether in the private or public sector, act and report in accordance with their mandates.

   (b) In the private sector act and report in accordance with their mandates.

   (c) In the public sector act and report in accordance with their mandates.

5. In relation to achieving a high level of independence:

   (a) The organisational status of the external auditor is very important, as is the level of management to whom they are responsible.

   (b) The organisational status of the internal auditor is very important, in contrast to the level of management to whom they are responsible.

   (c) The organisational status of the internal auditor is very important, as is the level of management to whom they are responsible.

2. MATCHING EXERCISES

(a) Match the American terminology on the left-hand side with the British terminology on the right-hand side.

(a) Capital stock	(1) Source and application of funds
(b) Earnings	(2) Employment costs
(c) Financial statements	(3) Turnover
(d) Purchase accounting	(4) Shareholders
(e) Changes in financial position	(5) Interests receivable
(f) Payroll costs	(6) Profits (after tax)
(g) Sales and other operating revenue	(7) Financial year
(h) Shareholders equity	(8) Accounts
(i) Interest income	(9) Share capital
(j) Fiscal year	(10) Acquisition accounting

(b) Match the four phases of an audit on the left-hand side with the definitions on the right-hand side.

(a) Phase I	(1) Complete the audit and issue an audit report.
(b) Phase II	(2) Perform tests of controls and substantitve tests of transactions.
(c) Phase III	(3) Plan and design an audit approach.
(d) Phase IV	(4) Perform analytical procedures and tests of details of balances.

3. PREPOSITIONS

Supply the missing prepositions in the below given passage.

Accountants and auditors help to ensure that the firms are run efficiently, its public records kept accurately, and its taxes paid properly and …… time. They perform these vital functions …… offering an increasingly wide array …… business and accounting services …… their clients. Specific job duties vary widely …… the four major fields …… accounting: public, managerial, government and internal.

Computers are rapidly changing the work …… most accountants and auditors. …… the aid …… special software packages, accountants summarise transactions …… standardised formats …… financial records and organise data …… special formats …… financial analysis.

Accountants and auditors held …… 1.1 million jobs …… 2002. Employment …… accountants and auditors is expected to grow …… as fast as the average …… all occupations …… the year 2012. An increase …… the number …… businesses, changing financial laws and regulations, and increased scrutiny …… company finances will drive growth. …… addition …… openings resulting …… growth, the need to replace accountants and auditors who retire or transfer …… other occupations will produce numerous job openings …… this large occupation.

As a result …… the recent accounting scandals (e.g. Enron), Federal legislation was enacted to increase penalties, and make company executives personally responsible …… falsely reporting financial information.

4. THE TENSES

Fill in the blank spaces in the text with correct verb forms.

Increased awareness of financial crimes, such as embezzlement, bribery, and securities fraud also …… (INCREASE) the demand for forensic accountants …… (DETECT) illegal activity by individuals, companies, and organised crime rings. Computer technology …… (MAKE) these crimes easier …… (COMMIT), and it …… (BE) on the rise. But, the development of new computer software and electronic surveillance technology also …… (MAKE) tracking down financial criminals easier, thus increasing the ease and likelihood that forensic accountants …… (DISCOVER) their crimes. As success rates of investigation …… (GROW), demand also …… (GROW) for forensic accountants.

The changing role of accountants and auditors also …… (SPUR) job growth, although this growth …… (LIMIT) as a result of financial scandals. Overall, job opportunities for accountants and auditors …… (BE) favourable. Regardless of specialty, accountants who …… (EARN) professional recognition through certification or licensure …… (HAVE) the best job prospects. Applicants with a master's degree also …… (HAVE) an advantage.

Proficiency in accounting and audit computer software, or expertise in specialised areas, such as international business may be helpful. In addition, employers increasingly …… (SEEK) applicants with strong interpersonal and communication skills. Because many accountants …… (WORK) on teams with others from different backgrounds, they must be able …… (COMMUNICATE) accounting and financial information clearly and concisely.

Review and Discussion Questions

In response to the increased emphasis on fraud prevention and detection connected with recent corporate failures, the AICPA (American Institute of Certified Public Accountants) issued Statement on Auditing Standards (SAS) 99, *Consideration of Fraud in a Financial Statement Audit*. In the light of this increased emphasis on uncovering fraud, auditors may want to consider the benefits of interviews as an audit tool.

In order to discuss the bellow given questions, you will need to know something about the *interviewing as an audit tool*, for the reason of which we offer some guidelines:

1. Making inquiries of management is important because senior management is often in the best position to commit and hide fraud. In obtaining information necessary to identify the risk of fraud in a financial statement audit, auditors are required to ask the following questions: Does management communicate its views on ethical business behavior to its employees? Does management have programmes and internal controls designed to prevent and detect fraud? Does management discuss with the audit committee of the board of directors how its internal control system serves to prevent and detect fraud? Does management understand the fraud risks specific to its business? Does management monitor

fraud risks relevant to specific components or divisions within the entity? Does management have any knowledge or suspicion of fraud? Is management aware of any allegations of fraud?

2. Inquiries of management and others in the form of fact-finding interviews can be highly effective in obtaining "the information needed to identify the risks of material misstatement due to fraud" For these interviews to be useful, effective, and efficient, the following techniques are recommended: training, interviewing *versus* integration, and conducting the interview.
3. Audit staff must be trained in how to conduct an effective fact-finding interview. Conducting professional interviews is a learned skill. It is only through training and practice that one becomes expert at it. Also, understanding the difference between an interview and an interrogation is important. In an interview, the interviewee is generally a willing participant assisting the interviewer in the process of determining the facts. An interrogation happens only when a suspected fraudster has been identified. The interview itself should have a tone that is formal, friendly, and non-threatening; it should follow a predetermined structure; and it should result in meaningful fact-finding. The interview should always be conducted in private. It is essential in the early part of the interview for the auditor to build a relationship of mutual trust with the interviewee in order to encourage an open discussion. Making a false statement during an audit interview is stressful for most people. When a false statement is made, the interviewee releases the stress verbally, non-verbally, or in both ways. Indicators of deception vary from individual to individual. Because the main purpose of the fact-finding interview is to seek information, open-ended questions should be emphasized.
4. Inquiries should be directed toward individuals concerned with financial reporting as well as those with direct or indirect access to the company's assets. Auditors should interview senior management first, and then follow the corporate ladder downward. The CEO and the CFO (Chief Financial Officer) should be carefully interviewed by a partner or experienced audit manager about their knowledge or suspicion of fraud. These executives have the power to override internal controls, and therefore are in a position to commit and hide fraud. Their administrative assistants may suspect or be aware of fraudulent activity, and should also be interviewed. Individuals may be aware of fraudulent activities but not expose them unless specifically asked. The auditor should use professional judgment to determine those others within the entity to whom inquiries should be directed and the extent of such inquiries. In making this determination, the auditor should consider whether others within the entity may be able to provide information that will be helpful to the auditor in identifying risk of material misstatement due to fraud.

5. During an interview, note taking is a function of the style and memory of the interviewer. A consistent pattern of note taking - either taking many notes or taking very few notes - should be maintained throughout the interview. The goal is not to distract the interviewee and not to disrupt the flow of the interview. A sudden change in note-taking style might affect the interviewee's answers.
6. Once all interviews have been completed, the audit manager should read all of the interview documentation memos. If the interview results indicate a lack of internal controls, overrides of internal controls, potential fraudulent activities, or other specific risks of material misstatement due to fraud, the auditor should expand procedures in the identified areas.

Questions

1. Are interviews a useful audit tool to gather information about internal controls and fraud risks? Support your opinion by giving at least three reasons.
2. What are auditors required to do to obtain information necessary to identify the risk of fraud in a financial statement audit?
3. It goes without saying that a training course is necessary to get an auditor started, as well as the observation along with a skilled interviewer. In your opinion, what auditors are ideal candidates for conducting such interviews?
4. If you have understood the difference between an interview and an interrogation, define the interviewer's task.
5. If you were an interviewer, would you conduct the interview in the interviewee's workstation or in the meeting room? Support your opinion.
6. How should the auditor structure the questions if he is to first build a rapport, and then observe changes in an interviewee's behavior that may signal a suspicious or sensitive topic? How would a skilled interviewer identify these indicators?
7. Explain and illustrate by examples of your own the following statement: "Because the main purpose of the fact-finding interview is to seek information, open-ended questions should be emphasized."
8. Define the interview subjects.
9. Once the interview has been completed, what should the interviewer do immediately?
10. How should the interview be used in the audit?

UNIT 9 CURRENT INTERNATIONAL STANDARDS ON AUDITING: ISA 230 (DOCUMENTATION)

CURRENT INTERNATIONAL STANDARDS ON AUDITING

As already mentioned, the International Auditing Practices Committee (IAPC), as a standing committee of the International Federation of Accountants (IFA), has a specific responsibility to issue guidelines on auditing and related services. It also issues International Standards on Auditing (ISA). Currently, there are over thirty-five International Standards on Auditing, ranging from *International Framework for Assurance Engagements* (ISA 000), *Assurance Engagements* (ISA 100), *Framework of International Standards on Auditing* (ISA 120) through *Quality Control for Audit Work* – effective from June 2005 (ISA 220), *Documentation* (ISA 230), *Knowledge of the Business* (ISA 310), *Audit Evidence* (ISA 500) to *Using Work of Another Auditor* (ISA 600), *Comparatives* (ISA 710), The Examination of Prospective Financial Information (ISA 810), etc.

INTRODUCTION TO ISA 230 (DOCUMENTATION)

The purpose of this International Standard on Auditing is to establish standards and provide guidance regarding documentation in the context of the audit of financial statements. The auditor should document matters which are important in providing audit evidence to support the auditor's opinion and evidence that the audit was carried out in accordance with ISAs.

Documentation means the material (working papers) prepared by and for, or obtained and retained by the auditor in connection with the performance of the audit. Working papers may be in the form of data stored on paper, film, electronic media or other media.

Working papers assist in the planning and performance of the audit, as well as in the supervision and review of the audit work. Also, they record the audit evidence resulting from the audit work performed to support the auditor's opinion.

FORM AND CONTENT OF WORKING PAPERS

The auditor should prepare working papers which are sufficiently complete and detailed to provide an overall understanding of the audit. Also, the auditor should record in the working papers information on planning the audit, work, the nature, timing and extent of the audit procedures performed, and the results thereof, and the conclusions drawn from the audit evidence obtained.

The form and content of working papers are affected by matters such as the following:

- Nature of the engagement.
- Form of the auditor's report.
- Nature, size and complexity of the business.
- Nature and complexity condition of the entity's accounting and internal control systems.
- Specific audit methodology and technology used in the course of the audit.

The use of standardised working papers (for example, checklists, specimen letters, standard organisation of working papers) may improve the efficiency with which such working papers are prepared and reviewed. They facilitate the delegation of work while providing a means to control its quality.

Working papers ordinarily include the information obtained in understanding the entity and its environment, including its internal control, such as the following:

- Information concerning the legal and organisational structure of the entity.
- Extracts or copies of important legal documents and agreements.
- Information concerning the industry, economic environment and legislative environment within which the entity operates.
- Extracts from the entity's internal control manual.
- Evidence of the planning process including audit programmes and any changes hereto.
- Evidence of the auditor's understanding of the accounting and internal control systems.
- Evidence of inherent and control risk assessments and any revisions thereof.

- Evidence of the auditor's consideration of the work of internal auditing and conclusions reached.
- Analyses of transactions and balances.
- Evidence that the work performed by assistants was supervised and reviewed.
- An indication as to who performed the audit procedures and when they were performed.
- Copies of communications with other auditors, experts and other third parties.
- Letters of representation received from the entity.
- Conclusions reached by the auditor concerning significant aspects of the audit, including how exceptions and unusual matters.
- Copies of the financial statements and auditor's report.

CONFIDENTIALITY, SAFE CUSTODY, RETENTION AND OWNERSHIP OF WORKING PAPERS

The auditor should adopt appropriate procedures for maintaining the confidentiality and safe custody of the working papers and for retaining them for a period sufficient to meet the needs of the practice and in accordance with legal and professional requirements of record retention.

Working papers are the property of the auditor.

1. READING FOR COMPREHENSION

(a) Answer the below given questions.

1. Define the responsibilities of the International Auditing Practices Committee.
2. List some of the current International Standards on Auditing.
3. What does ISA 230 refer to? State its purpose.
4. Explain the form and content of the working papers.
5. What about confidentiality, safe custody, retention and ownership of working papers. Explain.

(b) Decide if the following statements are true or false and correct the false ones.

	T	F
1. The International Auditing Practices Committee (IAPC), as a temporary committee of the International Federation of Accountants (IFA), has a specific responsibility to issue guidelines on accounting and related services.	☐	☐
2. It also issues International Accounting Standards (IAS).	☐	☐
3. The purpose of this International Standard on Auditing is to establish standards and provide guidance regarding documentation in the context of the audit of financial statements.	☐	☐
4. The auditor should document matters which are insignificant in providing audit evidence to corroborate the auditor's opinion and evidence that the audit was carried out in accordance with IAS.	☐	☐
5. The auditor should prepare working papers which are sufficiently complete and detailed to provide an overall understanding of the audit.	☐	☐
6. Working papers seldom include the information obtained in understanding the entity and its environment, including its external control.	☐	☐
7. Working papers are not the property of the auditor.	☐	☐

(c) Tick the right answer.

1. *Documentation means:*

   (a) The material but not the working papers prepared by and for, or obtained and retained by the auditor in connection with the performance of the audit.

   (b) The material (working papers) prepared by and for, or obtained and retained by the auditor in connection with the performance of the audit.

   (c) The material (working papers) prepared by and for, or obtained and detained by the auditor in connection with the publication of the audit.

2. *Working papers assist in the:*

   (a) Planning and performance of the audit, as well as in the supervision and review of the audit work.

   (b) Planning and performance of the audit, but not in the supervision and review of the audit work.

   (c) Planning and performance of the audit, as well as in the supervision and research of the audit work.

3. *The standardised working papers, such as:*

   (a) Checklists, specimen letters, standard organisation of working papers might improve the efficiency with which such working papers are prepared and reviewed.

   (b) Cheques, specimen letters, standard organisation of working papers may improve the effectiveness with which such working papers are prepared and reviewed.

   (c) Checklists, specimen letters, standard organisation of working papers may improve the efficiency with which such working papers are prepared and reviewed.

4. *The auditor:*

   (a) Should adapt appropriate procedures for maintaining the confidentiality and safe custody of the working papers and for retaining them for a period sufficient to meet the needs of the practice and in accordance with legal and professional requirements of record retention.

   (b) Should adopt appropriate procedures for maintaining the confidentiality and safe custody of the working papers and for retaining them for a period sufficient to meet the needs of the practice and in accordance with legal and professional requirements of record retention.

   (c) Should adopt appropriate procedures for maintaining the confidentiality and safe custody of the working papers and for detaining them for a period sufficient to meet the needs of the practice and in accordance with legal and professional requirements of record detention.

5. *Working papers:*

   (a) Are the assets of the auditor.

   (b) Are not the property of the auditor.

   (c) Are the property of the auditor.

2. MATCHING EXERCISES

Match the terms on the left-hand side with the definitions on the right-hand side.

(a) Audit evidence	(1) The amount payable to an auditor for an audit.
(b) Audit exemption	(2) The overall plan for an audit, which gives the framework for detailed decisions regarding the nature, timing, and extent of the substantive tests to be employed.
(c) Auditor's remuneration	(3) Computer programmes used by an auditor to examine an enterprise's computer files.
(d) Audit strategy	(4) To relieve from a statutory annual audit performed by a registered auditor that can be claimed by companies with a turnover of not more than a prescribed sum.
(e) Audit software	(5) Things helpful in forming a conclusion required by an auditor to base an audit opinion on the financial statement of the company whose accounts are being audited.

3. PREPOSITIONS

Supply the missing prepositions.

The purpose …… the *Auditor's report* …… *Special Purpose and Engagement* (ISA 800) is to establish standards and provide guidance …… connection …… special purpose audit engagement including: financial statements prepared pursuant …… the basis of accounting other than IAS or national standards; specified accounts, elements of accounts, or items …… a financial statement; compliance …… contractual agreements; and summarised financial statements.

The auditor should review and estimate the conclusions drawn …… the audit evidence …… the special purpose audit engagement as the basis …… an expression …… opinion. The report should contain a clear written expresion …… opinion.

…… planning the audit work, the auditor will need a clear understanding …… the purpose …… which the information being reported …… is to be used, and who is likely to use it. To avoid the possibility …… the auditor's report being used …… purposes …… which it was not intended, the auditor may wish to indicate …… the report the purpose …… which the report is prepared and any restricitions …… its distribution and use.

4. THE ARTICLES

Fill in the missing articles.

…… auditor's report on …… special purpose audit engagement should include …… following basic elements: Title; Addressee; Opening or Introductory paragraph, including identification of …… financial information audited, and …… statement of …… responsibility of …… entity's management and …… responsibility of …… auditor; …… scope paragraph (describing …… nature of …… audit); opinion paragraph containing …… expression of opinion on …… financial information; date of …… report; auditor's address; and auditor's signature.

There may be …… prescribed format for …… auditor's report. Such prescribed reports may not conform to …… requirements of this ISA. When requested to report in …… prescribed format, …… auditor should consider …… prescribed report and, when necessary, should make appropriate changes to conform to …… requirements of this ISA.

When …… information on which …… auditor has been requested to report is based on …… provisions of …… agreement, …… auditor needs to consider whether any significant interpretations of …… agreement have been made by management in preparing …… information.

Review and Discussion Questions

After carefully reading the below given sample audit report, discuss it.

Graham, Cottrill, Jackson, Batts & Hostetter, LLP
Certified public Accountants
110 East Hillcrest Street
Orlando, Florida 3280
(407: 843-1681) (S00; 342-2720) Facsimile (407) 423-3156

The Audit Committee
The Institute of Internal Auditors, Inc.
Altamonte Springs, Florida

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidating statement of financial position of The Institute of Internal Auditors, Inc. ('the Institute') as of December 31, 2003, and the related consolidating statements of activities and cash flows for the year then ended. These consolidating financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these consolidating financial statements based on our audit. The consolidating financial statements of The Institute of Internal Auditors, Inc. for the year ended December 31, 2002, were audited by Graham, Cottrill, Jackson, Batts & Hostetter, P.A. The report was dated February 21, 2003, and expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America Those standards require that, we plan and perform the audit to obtain reasonable assurance about whether the consolidating financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidating financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the consolidating financial position of The Institute of Internal Auditors, Inc. as of December 31, 2003, the consolidating changes in its net assets and its consolidating cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

GRAHAM, COTTRILL, JACKSON, BATTS *&* HOSTETTER, LLP

February 19, 2004

THE INSTITUTE OF INTERNAL AUDITORS, INC.

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

	December 31, 2003				2002
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors – Research Foundation	Eliminations	Consolidated Total	Consolidated Total
ASSETS					
Cash and cash equivalents	$ 990,192	$ 111,207	$ —	$ 1,101,399	$ 2,072,748
Restricted investments	—	135,000	—	135,000	135,000
Investments	8,826,378	1,037,166	—	9,863,544	4,418,495
Due from affiliate, net	—	10,125	(10,125)	—	—
Accounts receivable, net	955,494	4,484	—	959,978	1,176,811
Inventories	—	150,634	—	150,634	92,332
Prepaid expenses and advances	308,448	—	—	308,448	238,867
Property and equipment, net	4,322,075	—	—	4,322,075	4,483,356
Deferred project costs, net	132,731	137,987	—	270,718	463,385
Employee savings plan	1,176,227	—	—	1,176,227	1,092,960
Total assets	**$ 16,711,545**	**$ 1,586,603**	**$ (10,125)**	**$ 18,288,023**	**$ 14,173,960**
LIABILITIES					
Accounts payable and accrued expenses	$ 2,092,609	$ 16,239	$ —	$ 2,108,848	$ 1,821,356
Due to affiliate, net	10,125	—	(10,125)	—	—
Deferred revenue	3,272,784	9,896	—	3,282,680	2,806,294
Deferred employee compensation	1,176,227	—	—	1,176,227	1,092,960
Total liabilities	**6,551,745**	**26,135**	**(10,125)**	**6,567,755**	**5,720,610**
NET ASSETS					
Unrestricted	10,159,800	1,358,962	—	11,518,762	8,274,075
Temporarily restricted	—	66,506	—	66,506	44,269
Permanently restricted	—	135,000	—	135,000	135,000
Total net assets	**10,159,800**	**1,560,468**	**—**	**11,720,268**	**8,453,344**
Total liabilities and net assets	**$ 16,711,545**	**$ 1,586,603**	**$ (10,125)**	**$ 18,288,023**	**$ 14,173,954**

The Accompanying Notes Are An Integral
Part Of These Consolidating Financial Statements

THE INSTITUTE OF INTERNAL AUDITORS, INC.

CONSOLIDATING STATEMENTS OF ACTIVITIES

	December 31, 2003				2002
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors – Research Foundation	Eliminations	Consolidated Total	Consolidated Total
CHANGE IN UNRESTRICTED NET ASSETS FROM OPERATIONS					
REVENUES					
Learning Center	$ 12,370,465	$ —	$ —	$ 12,370,465	$ 9,670,760
Global Practices Center	4,332,012	—	—	4,332,012	4,018
President	68,381	—	—	68,381	370,071
Communications Center	1,823,667	—	—	1,823,667	1,435,721
Quality Auditing Services	741,230	—	—	741,230	471,575
2003 International Conference	1,946,283	—	—	1,946,283	—
Contributions	—	566,616	(430,105)	136,511	148,059
Publication sales	—	102,163	—	102,163	129,570
Dividend and interest income	166,066	31,861	—	197,927	188,787
Total revenues	21,448,104	700,640	(430,105)	21,718,639	16,432,779
Net assets released from use restrictions	23,182	121,379	—	144,561	568,536
Total revenues and net assets released from use restrictions	**21,471,286**	**822,019**	**(430,105)**	**21,863,200**	**17,001,315**
EXPENSES					
Learning Center	8,200,917	—	—	8,200,917	7,032,748
Global Practices Center	2,927,556	—	—	2,927,556	2,961,007
Business Center	1,382,457	—	—	1,382,457	1,482,632
President	1,166,314	—	—	1,166,314	892,776
Communications Center	2,669,922	—	—	2,669,922	1,890,189
Quality Auditing Services	630,033	—	—	630,033	519,620
2003 International Conference	1,590,824	—	—	1,590,824	—
Research projects	430,105	424,711	(430,105)	424,711	480,935
Academic programs	14,528	7,478	—	22,006	27,139
General and administrative	—	85,258	—	85,258	58,913
Total expenses	19,012,656	517,447	(430,105)	19,099,998	15,345,959
Change in unrestricted net assets from operations	**2,458,630**	**304,572**	**—**	**2,763,202**	**1,655,356**
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS FROM OPERATIONS					
Contributions	23,182	140,000	—	163,182	231,400
Dividend and interest income	—	3,616	—	3,616	3,989
Net assets released from use restrictions	(23,182)	(121,379)	—	(144,561)	(568,536)
Change in temporarily restricted net assets from operations	**—**	**22,237**	**—**	**22,237**	**(333,147)**
NET GAIN (LOSS) ON INVESTMENTS	388,846	92,639	—	481,485	(626,343)
CHANGE IN NET ASSETS	2,847,476	419,448	—	3,266,924	695,866
NET ASSETS - **Beginning of year**	7,312,324	1,141,020	—	8,453,344	7,757,478
NET ASSETS - **End of year**	$ 10,159,800	$ 1,560,468	$ —	$ 11,720,268	$ 8,453,344

THE INSTITUTE OF INTERNAL AUDITORS, INC.

CONSOLIDATING STATEMENTS OF CASH FLOWS

	December 31,				
	2003				2002
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors – Research Foundation	Elimina-tions	Consolidated Total	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net assets	$ 2,847,476	$ 419,448	$ —	$ 3,266,924	$ 695,866
Adjustments to reconcile change in net assets to net cash flows from operating activities:					
Depreciation	232,177	—	—	232,177	143,477
Amortization of deferred project costs	231,699	—	—	231,699	243,352
Transfer of assets to (from) affiliate	271,044	(271,044)	—	—	—
Net (gain) loss on investments	(388,846)	(92,639)	—	(481,485)	626,343
(Gain) loss on sale of property and equipment	(464)	—	—	(464)	845
Change in restricted investments	—	—	—	—	297,826
Change in due to/from affiliate, net	(1,338)	1,338	—	—	—
Change in accounts receivable, net	214,659	2,174	—	216,833	(165,793)
Change in inventories	(57,353)	(949)	—	(58,302)	22,997
Change in prepaid expenses and advances	(69,581)	—	—	(69,581)	(40,098)
Change in accounts payable and accrued expenses	288,803	(1,311)	—	287,492	124,832
Change in deferred revenue	466,490	9,896	—	476,386	455,252
Total adjustments	1,187,290	(352,535)	—	834,755	1,709,033
Net cash flows from operating activities	**4,034,766**	**66,913**	**—**	**4,101,679**	**2,404,899**
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales of investments	1,307,241	279,656	—	1,586,897	1,236,546
Purchases of investments	(6,248,010)	(302,451)	—	(6,550,461)	(1,509,182)
Proceeds from sale of property and equipment	464	—	—	464	1,983
Purchases of property and equipment	(70,896)	—	—	(70,896)	(2,994,819)
Expenditures for deferred projects, net	(39,032)	—	—	(39,032)	(120,260)
Net cash flows from investing activities	**(5,050,233)**	**(22,795)**	**—**	**(5,073,028)**	**(3,385,732)**
CHANGE IN CASH AND CASH EQUPMENTS	**(1,015,467)**	**44,118**	**—**	**(971,349)**	**(980,833)**
CASH AND CASH EQUPMENTS - Beginning of year	**2,005,659**	**67,089**	**—**	**2,072,748**	**3,053,581**
CASH AND CASH EQUPMENTS - End of year	**$ 990,192**	**$ 111,207**	**$ —**	**$ 1,101,399**	**$ 2,072,748**

NOTE A – NATURE OF ACTIVITIES

The Institute of Internal Auditors, Inc. ("the Institute") was formed in 1941 and is a not-for-profit corporation organized to cultivate, promote and disseminate knowledge and information concerning internal auditing and related subjects. The Institute's primary program activities include conducting seminars and conferences to educate and train internal auditors; publishing and selling periodicals and materials which inform internal auditors and members of the Institute of current professional issues, standards and practices; offering examinations and certifications to internal auditors; and evaluating the performance of internal audit departments.

Institute of Internal Auditors - Research Foundation ("the Foundation") is a not-for-profit corporation formed to promote research and education in internal auditing. The Institute's Board of Directors appoints the Foundation's Board of Trustees. Additionally, the Foundation is a supporting organization of the Institute. Accordingly, in conformity with Statement of Position 94-3, issued by the American Institute of Certified Public Accountants, the Institute's consolidating financial statements include the accounts of the Foundation. All significant interorganisation transactions and balances have been eliminated.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restricted and unrestricted revenue and support

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidating statements of activities as "net assets released from restrictions".

Revenue recognition and centre activities

The Institute recognises revenue and incurs expenses in its operation of the following functions:

Learning Centre

Conference and seminar fees are recognized as income in the period in which the event is held. Educational product sales are recognized as income when the related inventory is shipped. Certification fees are recognized as income in the period in which the exams are given. Global Auditing Information Network ("GAIN") subscription fees are recognized as income when the product is shipped. Expenses include all costs associated with administration and the direct costs of conducting seminars, conferences and exams, producing and distributing educational products, and fulfillment of GAIN subscriptions.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Global Practices Centre

Membership dues are recognized as income ratably throughout the year. Membership application fees are nonrefundable and are recognized as income when received. Expenses include all costs associated with administration and the direct costs of delivering member benefits, as well as costs associated with the global integration program.

Business Centre

Expenses include costs of supporting the infrastructure of the Institute, including accounting, customer service, mailroom, copy centre, facility maintenance and certain employee benefits.

President

Profit from the 2002 International Conference was recognized as income during the year ended December 31, 2002. Expenses include costs associated with the governance activities of the Institute, including committee meetings, executive travel and strategic initiative development and implementation.

Communications Centre

Subscriptions and print advertising revenue are recognized as income in the period in which the related publications are issued. Website advertising revenue is recognised as income ratably over the length of the advertising contract. Expenses include all costs associated with administration and the direct costs of producing and delivering publications, website maintenance, information technology and human resources. Advertising costs are expensed as incurred.

Quality Auditing Services

Quality Assessment Service fees are recognised as income as the related service is provided based on the percentage of the engagement completed. Expenses include all costs associated with administration and the direct costs of conducting Quality Assessments.

Expenses related to the administrative tasks conducted by the Institute on behalf of the Foundation are included with “research projects” in the accompanying consolidating statements of activities. Expenses related to supporting the auditing profession through college and university programmess are included with “academic programmes” in the accompanying consolidating statements of activities.

Revenue which is received in advance of the recognition period is included in “deferred revenue” in the accompanying consolidating statements of financial position.

The expenses related to the above functions are presented in the corresponding classifications, combined with allocations of common costs based on estimated usage.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For purposes of the consolidating statements of cash flows, the Institute considers all investment instruments purchased with original maturities of three months or less to be cash equivalents.

Restricted Investments

Restricted investments consist of endowment funds given to the Foundation, the investment income from which is to be used for scholarships for internal auditing students.

Investments

Investments are carried at fair market value.

Allowance for doubtful accounts

Accounts receivable are stated net of an allowance for doubtful accounts. The Institute estimates the allowance for doubtful accounts based on an analysis of specific accounts, taking into consideration the age of the past due account and an assessment of the client's ability to pay. Accounts are considered past due when payments are not made in accordance with specified terms. Accounts are written off upon such time that management determines such amounts are uncollectible.

Inventories

Inventories consist of publications and are carried at cost on a first-in, first-out (FIFO) basis.

Property and equipment

Property and equipment are stated at cost. The Institute uses the straight-line method of depreciating property and equipment over expected useful lives.

Deferred project costs

Costs related to seminars, web site development and design, and educational product development or revision are deferred until the related projects are completed. Seminar costs are amortised over three or four years using the straight-line method, web site costs over three years using the straight-line method, and educational product development or revision costs over three years at 60% the first year, 30% the second year, and 10% the third year. During the year ended December 31, 2003, the Institute transferred certain components of its Educational Products department to the Foundation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restrictions on net assets

Temporarily restricted net assets consist of amounts restricted for various research projects. Permanently restricted net assets consist of endowment funds given during the year ended December 31, 2000, the investment income from which is to be used for scholarships for internal auditing students.

Income taxes

The Institute is exempt from Federal income tax under Internal Revenue Code Section 501 (a) as an organization described in Section 50 l(c)(6) and from state income tax pursuant to Florida law. The Institute engages in certain activities which are "unrelated business activities" as defined by the Internal Revenue Code, and which are subject to taxation. Income taxes on unrelated business income are recognised as expenses as incurred. The Foundation is exempt from Federal income tax under Internal Revenue Code Section 501 (a) as an organization described in Section 501(c)(3) and from state income tax pursuant to Florida law. The Foundation has not incurred unrelated business income taxes.

Use of estimates

Management uses estimates and assumptions in preparing consolidating financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these consolidating financial statements include those related to the useful lives of property and equipment and the collectibility of accounts receivable. Actual results could differ from the estimates.

NOTE C - CONCENTRATION OF CREDIT RISK

The Institute maintains its cash and cash equivalents in deposit accounts and money market funds which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Institute has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE D - INVESTMENTS

Investments consisted of the following:

			December 31.	
			2003	2002
	The Institute	The Foundation	Consolidated Total	Consolidated Total
U.S. government obligations	$ 1,247,407	$ 308,133	$ 1,555,540	$ 1,351,428
Corporate bonds	1,396,760	245,275	1,642,035	989,465
Equity securities	4,159,369	618,758	4,778,127	2,115,922
Certificates of deposit	2,022,842	—	2,022,842	96,680
Subtotal	8,826,378	1,172,166	9,998,544	4,553,495
Less: Restricted investments	—	(135,000)	(135,000)	(135,000)
Net investments	$ 8,826,378	$ 1,037,166	$ 9,863,544	$ 4,418,495

The Institute considers all dividends and interest from investments as operating revenues for purposes of the consolidating statements of activities. Gains and losses related to investments are considered to be nonoperating activities for purposes of the consolidating statements of activities.

Net gain (loss) on investments consisted of the following:

			December 31.	
			2003	2002
	The Institute	The Foundation	Consolidated Total	Consolidated Total
Unrestricted	$ 388,846	$ 92,639	$ 481,485	$ (626,343)

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31.	
Category	2003	2002
Land	$ 114,103	$ 114,103
Buildings and building improvements	3,716,517	3,726,517
Furniture and equipment	1,226,795	1,253,134
Total property and equipment	5,067,415	5,093,754
Less: Accumulated depreciation	(745,340)	(610,398)
Net property and equipment	**$ 4,322,075**	**$ 4,483,356**

Depreciation expense amounted to approximately $ 232,000 and $ 143,000 for the years ended December 31, 2003 and 2002, respectively.

NOTE F - INTERNATIONAL CONFERENCE

The Institute's financial statements for the year ended December 31, 2003, include the revenues and expenses associated with the 2003 International Conference. Expenses related to the International Conference include approximately $60,000 paid to the Las Vegas chapter in recognition of its services as the host chapter for the International Conference.

NOTE G - OPERATING LEASES

The Institute leases office equipment under operating leases expiring through January 2006. Approximate future lease payments are as follows:

Year Ending December 31,	
2004	$ 81,500
2005	47,500
2006	15.100
Total	$144.100

Total rent expense amounted to approximately $320,000 and $502,000 for the years ended December 31, 2003 and 2002, respectively.

NOTE H - RETIREMENT PLANS

The Institute maintains a Section40l(k) retirement plan. All full-time employees over the age twenty-one who have completed 90 days of service are eligible to participate in the plan. The Institute contributes three percent of the total salary of eligible employees to the plan.

The Institute also maintains a money purchase pension plan. All employees over the age of twenty and one-half who have completed 1,000 hours of service are eligible to participate in the plan. The Institute contributes seven percent of the total salary of eligible employees to the plan.

During the years ended December 31, 2003 and 2002, the Institute contributed approximately $565,000 and $492,000, respectively, to the above plans.

The Institute maintains a Section 457 deferred compensation plan for the benefit of certain employees. Under the provisions of the plan, employees could elect to have a portion of their salary contributed to the plan. The Institute held approximately $ 1,176,000 and $ 1,093,000 in the plan as of December 31, 2003 and 2002, respectively, which is reflected in the accompanying consolidating statements of financial position under "employee savings plan" and "deferred employee compensation". Contributions to the plan were terminated effective December 31, 2001.

NOTE I - COMMITMENTS

The Foundation has entered into contracts and agreements with various parties for research projects. Unpaid commitments related to these contracts and agreements totaled approximately $200,000 as of December 31, 2003.

NOTE J - EXPENSE ALLOCATIONS

Total expenses for the Institute include approximately $14,554,000 and $11,376,000 of program expenses, $4,454,000 and $3,700,000 of supporting expenses, and $5,000 and $5,000 of fund-raising expenses for the years ended December 31, 2003 and 2002, respectively.

Part III

Insurance

UNIT 10 ABOUT INSURANCE IN GENERAL

WHAT IS INSURANCE?

Insurance is the provision which a prudent man makes against fortuitous or inevitable contingencies, loss or misfortune. It is a form of spreading risk, i.e., the use of contracts to reduce and redistribute risk. In an insurance contract, the insurer accepts a fixed payment, or premium, from the insured, and in return undertakes to make payments if certain events occur.

SOCIAL INSURANCE IS CONSIDERED TO BE A TYPE OF SOCIAL SECURITY

Social insurance refers to public (government) insurance programme that provides economic assistance to persons faced with unemployment, disability, or agedness. Since the aim of social insurance schemes will be defeated if it is left to individuals to take advantage of them voluntarily, compulsory participation on the part of all eligible is essential to the success of such programmes. The state has an interest in prevention of poverty because of the cost it imposes on it, as well as because distress of any part of its citizens is of concern to it. On the other hand, industry has an interest and a responsibility to the extent that wages paid do not permit adequate provision for the risks which cause poverty, as well as to secure a body of competent, satisfied workers. On these grounds justification is found for dividing the cost of such insurance among the workers covered by the insurance, employers and the government. Social insurance is considered to be a type of social security, and in fact the two terms are sometimes used interchangeably.

LOSS FROM INSURABLE RISKS

It is often said that compulsory social insurance was introduced by Bismarck as a sop to socialists. A more accurate explanation would seem to be that there was evident need of such service and pressure for it. For, poverty is not always due to lack of thrift, but much of it is due to loss from the insurable risks, which are as follows: *premature death of one having dependents*, from occupational accident or disease; *disablement of*

a temporary nature but considerable duration, from occupational accident or disease; *invalidity or permanent disability*, from occupational accident or disease; *superannuation*, referring to unemployability due to old age; and *unemployment*.

REASONS FOR INADEQUATE INSURANCE

However, adequate voluntary insurance against these risks to which all are exposed is rarely carried out by those most exposed to them. Among the reasons for inadequate insurance is the high cost of private insurance due to unavoidable high operating cost. For although people are aware of the fact that saving is necessary to provide for the rainy day, for loss of earning power due to illness or accident or old age, against these needs stands the insistent demand of the present for the better food, for better living conditions, for educational opportunities for children. It is not fixed or stationary. It is always expanding. And against this tendency of current expenses to press upon income, fear is all too weak a check. The average individual is an optimist. He does not expect to be out of employment, to be ill, to be injured in his work, or even to grow too old to work.

SOCIAL INSURANCE SCHEMES

In view of social insurance schemes, models that have been adopted by governments vary from country to country. Thus, the principle of workmen's compensation or the accident insurance may be said to have received worldwide acceptance, but with a most varied provision for insurance. In recent years, state workers' compensation statutes have been broadened to provide for coverage of *occupational diseases* and *environmental diseases*.

Unemployment insurance as a form of social insurance is designed to provide income to people who have lost their jobs. The system has two major goals: to prevent unemployed people from undergoing severe hardships and to help them get back to work. The British system is supported by contributions from workers, employers and the government. The basis for nationwide unemployment programme in the United States was the Social Security Act of 1935. The programme was financed by taxes levied on business payrolls. To be eligible for benefits, an unemployed worker must have earned a given amount of wages within a specific period of time. In addition, he must fill a claim, register for work at the state employment service, be able to work, and be available for suitable work.

Health insurance has been introduced in many European countries, including Great Britain. It has not yet been introduced in the United States, though its need has been urged. Most Americans have some form of public or private health insurance, although a certain percentage are uninsured. The largest public insurance plans in the United States are popularly known as *Medicare* (Medical hospital insurance), covering people over the age of 65, certain disabled individuals under the age of 65, and those with kidney failure, and *Medicaid* (Medicare Supplemented Medical Insurance), which is an insurance programme for the poor.

The **Old-age Pensions** or the **old age and invalidity insurance** provide pensions for old age or invalidity, including sickness and sickness lasting more than a specified number of weeks, at this point taking the cases over from the sick fund. In the United States it is called the *Old Age, Survivors' and Disability Insurance* (*OASDI*). This programme provides benefits for the aged, for the disabled, and for survivors of deceased workers. The cash benefits for OASDI are financed by earmarked payroll taxes.

1. READING FOR COMPREHENSION

(a) Answer the below given questions.

1. What is insurance?
2. Define the term social insurance.
3. On what grounds is justification found for dividing the cost of such insurance among the workers covered by the insurance, employers and the government?
4. State the main reason for introducing a system of social insurance on a national scale in Germany.
5. Identify insurable risks.
6. Identify social insurance schemes.
7. State the purpose of unemployment insurance.
8. Explain the terms *Medicare* and *Medicaid*.
9. Explain what the term old-age pensions or old age and invalidity insurance means.

(b) Decide if the following statements are true or false and correct the false ones.

	T	F
1. Insurance is the provision which a prudent man makes against fortunate or inevitable contingencies, loss or misfortune.	☐	☐
2. The aim of social insurance schemes will not be defeated if it is left to individuals to take advantage of them voluntarily.	☐	☐
3. Compulsory participation on the part of all fulfilling the necessary conditions is essential to the success of such programmes.	☐	☐
4. On these grounds justification is found for dividing the cost of such insurance among the workers, employers and the government.	☐	☐
5. It is often said that compulsory social insurance was introduced by Bismarck as a soap to socialists.	☐	☐
6. However, adequate voluntary insurance against these risks to which all are exposed is rarely carried out by those most exposed to them.	☐	☐
7. For although people know that keeping money is necessary to provide for the time when it is raining, for loss of earning power due to illness or fortunate event or agelessness, against these needs stands the insistent demand of the present for the better food, for better living conditions, for educational opportunities for children.	☐	☐
8. Thus, the principle of workmen's compensation or the accident insurance may be said to have received worldwide acceptance, but with a most deferred provision for insurance.	☐	☐

(c) Tick the right answer.

1. *Social insurance refers to:*

   (a) Public insurance programme that provides protection against various economic risks, in which participation is not compulsory.

   (b) Public insurance programme that provides protection against various economic risks, in which participation is compulsory.

   (c) Voluntary insurance programme that provides protection against various economic risks, in which participation is compulsory.

2. *Social insurance is considered to be a type of social security, and in fact:*
   (a) The two terms are always used interchangeably.
   (b) The two terms are never used interchangeably.
   (c) The two terms are sometimes used interchangeably.
3. *It is often said that compulsory social insurance was introduced by Bismarck:*
   (a) As a soap to socialists.
   (b) As a sop to socialists.
   (c) As a sop to workers.
4. *Poverty is not always due to lack of thrift:*
   (a) But much of it is due to loss from the insurable risks.
   (b) But much of it is due to loss from premature death of one having dependents.
   (c) But much of it is due to loss from unemployment.
5. *Social insurance schemes, inter alia, include:*
   (a) Health insurance, unemployment insurance, and the old-age pension insurance.
   (b) Health insurance, occupational diseases insurance, and the old-age pension insurance.
   (c) Health insurance, unemployment insurance, and environmental diseases insurance.

(d) Replace the expressions in italics with expressions from the text which have the same meaning.

1. Contributions are normally ***required by law*** and may be made by the insured's employer and the state, as well as by the insured himself.
2. It is often said that compulsory social insurance was ***instituted*** by Bismarck ***to pacify*** socialists.
3. ***The state of being poor*** is not always due to lack of ***economical management***, but much of it is due to loss from the insurable risks, such as ***too soon a death*** of one having ***persons relying on him for support*** or ***allowance to retire on a pension because of age or infirmity***.

4. However, adequate voluntary insurance against these risks to which all are ***subject to*** is ***seldom*** carried out by those most ***unprotected from*** them.
5. People are ***conscious of*** the fact that saving is necessary to provide for ***the time of need***.
6. It is not ***definite*** or ***unchangeable***. It is always ***increasing***.
7. Against this tendency of current expenses to ***weigh on*** income, ***one turns a blind eye***.
8. To be ***entitled to receive*** benefits, an unemployed worker must have ***obtained*** a given amount of wages within a specific period of time.

(e) Fill in the missing words by choosing from the below given box.

social insurance ***premature death*** ***superannuation*** ***health insurance*** ***unemployment insurance*** ***old-age pensions*** ***environmental disease*** ***occupational disease*** ***disability*** ***insurable risks*** ***unemployment***

1. Much of poverty is due to loss from the ……..…….., such as ……..…….. of one having dependents, either from occupational accident or disease; ……..…….., temporary or permanent (invalidity), either from occupational accident or disease or from other causes; ……..…….. or old age; and ……..… .
2. In everyday use, the term ……..….. refers to illnesses caused by exposure to agents in the environment, as opposed to illnesses related primarily to an individual's genetic makeup or to malfunctions of the immune system.
3. An insurance programme carried out or mandated by a government to provide economic assistance to the unemployed, the elderly, or the disabled is called ……..…… .

4. ……..……., as a major category of environmental disease, refers to illness resulting from job-related exposures.

5. Insurance to meet the costs of sickness and disability is called ……..... . It pays for physicians, hospitals, and other providers of medical services.

6. The ……..…… or the old age and invalidity insurance provide pensions for old age or invalidity, including sickness

7. As a form of social insurance ……..…… is designed to provide income to people who have lost their jobs. The system has two major goals: to prevent unemployed people from undergoing severe hardships and to help them get back to work.

2. MATCHING EXERCISES

Match the terms on the left-hand side with the definitions on the right-hand side.

(a) Unemployment insurance	(1) Public insurance programme that provides protection against various economic risks, in which participation is compulsory.
(b) Medicaid	(2) It provides pensions for old age or invalidity, including sickness and sickness lasting more than a specified number of weeks.
(c) Health insurance	(3) An insurance programme for the poor.
(d) Old-age Pensions	(4) System for the advance financing of medical expenses by means of contributions paid into a common fund to pay for all or part of health services specified in an insurance policy or law.
(e) Social insurance	(5) A form of social insurance designed to provide income to people who have lost their jobs.

3. PHRASAL VERBS AND IDIOMATIC ADJECTIVE PHRASES

Choose either the phrasal verb or the adjective phrase to complete each sentence correctly.

1. Unemployment insurance is a form of social insurance …… ……..…… (ABOUND WITH, ABOUNDING WITH) provisions designed to prevent unemployed people from undergoing severe hardships and to help them get back to work.

2. The old age pensions ……..……..……. (NOT/ABOUND WITH, NOT/ABOUNDING WITH) benefits for old age or invalidity.

3. Every man is …….. (ACCOUNT FOR, ACCOUNTABLE FOR) everything he does and says.

4. The treasurer has been able to …….…… (ACCOUNT FOR, ACCOUNTABLE FOR) every penny of expense.

5. Your criticisms …….…… (NOT/APPLY TO, NOT/ APPLICABLE TO) health insurance.

6. The money raised for the pension fund illegally …….…… …… (APPLIED TO, APPLICABLE TO) to paying the administrators last year.

7. Why should the insured be greatly ……. (DISPLEASE WITH, DISPLEASED WITH) the benefits arising from his insurance contract?

8. The insured …….. (DISPLEASE WITH, DISPLEASED WITH) the benefits arising from his insurance contract this year complained about it.

9. Poverty with honesty is ……. (PREFER TO, PREFERABLE TO) wealth got by unfair means.

10. He …… (PREFER TO, PREFERABLE TO) poverty wealth because he believed that wealth got by unfair means was dishonest.

11. He ……..…… …… (SUIT TO, SUITABLE TO) his speech admirably the occasion.

12. The old age benefits are ……...… (NOT/SUIT TO, NOT/SUITABLE TO) her station in life.

4. PREPOSITIONS

Supply the missing prepositions

It is always more or less the fashion to blame the miseries …… the poor …… a large degree …… their own lack …… thrift, foresight and discretion. External evidence seems to support this view: large families, drunkenness, and occasional extravagance. It is natural also to draw this conclusion, since it flatters the vanity …… those who avoid poverty. Further, the rise …… dire poverty …… the highest positions has occurred …… sufficient frequency to lead many to conclude that any who would could do likewise, and that where the person fails, it is the will that was lacking.

But modern science and research shows the fallacy …… this complacent view. Drunkenness is a sodden vice, but not wholly confined …… the poor, and appears more excusable when viewed …… the drab monotony …… factory and slum. And so, …… the last half century the problem was attacked …… less censure and more understanding.

5. PREPOSITIONAL PHRASES OR PHRASE-PREPOSITIONS

Complete the following prepositional phrases and use them in sentences of your own.

1. …… variance …….
2. …… means …….
3. …… fear …….
4. …… behalf ……..
5. …… behalf ……..
6. …… favour …….
7. …… the face …….
8. …… the face …….
9. …… keeping …….
10. …… name ……...

6. THE TENSES

Fill in the blank spaces in the text with correct verb forms.

Modern study and investigation …… (SHOW) the need for better housing, working conditions, and recreation facilities, and …… (TEND) to bring them about. It also …… (SHOW) that much poverty and suffering which react to injury of the public …… (BE) due to the results of contingencies or hazards to which those exposed …… (NOT/MAKE) adequate provision. When every penny has to be counted, lest some that will later be required for food be spent on unnecessary things, for a still unsettled balance at a grocer's for food during the last shutdown of the mill, the harassed housewife can see no possibility of …… (PAY OUT) money for John's life. "He …… (BE) strong and well now, and the boys …… (GROW) and soon …… (BE ABLE) to help should the need arise." "He may be killed in an accident? Pray God not, but why …… (GO HUNGRY) now to save possibly having to go hungry later when we may not be in need?" These

contingencies are those to which all ……(EXPOSE), and for which more or less adequate provision …… (MAKE) by insurance.

Review and discussion questions

Under workers' compensation legislation, scales of compensation are established for accidental injuries arising out of and in the course of employment, without regard to the party responsible for the accident. In recent years, state workers' compensation statutes have been broadened to provide for coverage of occupational diseases and environmental diseases. After reading the text, try to answer the below given questions.

1. In everyday use, the term environmental disease is confined to non-infectious diseases and to diseases caused largely by exposures beyond the control of an individual. Historically, awareness of environmental diseases began with the recognition of occupational illnesses, because exposures are usually more intense in work settings than in general environment and can more readily produce overt illnesses.
2. Industrial society has introduced or increased human exposure to thousands of chemicals in the environment. Trauma arising from unsafe environments accounts for a large proportion of preventable human illness, such as RSI (caused by excessive and repetitive use of the upper limbs, especially under difficult conditions), and noise in the workplace is responsible for the most prevalent occupational impairment: hearing loss or permanent deafness.
3. Also, disorders due to psychological factors are important determinants of the worker's health, well-being, and productivity. Studies have shown the benefits to workers who feel satisfied and stimulated by their jobs, who maintain good relationships with their employers and with other employees, and who do not feel overworked. Such workers have lower rates of absenteeism and job turnover and higher rates of output than average. The two psychological hazards commonly encountered at work are boredom, which decreases worker's output and increases the chances of error and accident, and mental stress, which affects both mental and physical health, causing anger, irritation, fatigue, aches, ulcers, asthma, or even coronary heart disease.

Questions

1. Is it possible for a citizen to claim damages for a disease caused largely by exposures beyond his/her control? Why or why not?
2. Define the principle of Repetitive Stress Injury and identify workers mostly exposed to it.
3. Identify workers most likely to suffer from hearing loss or permanent deafness.
4. Does the term environmental disease fall under insurable risks? Why?
5. Define disablement and invalidity in view of the aforesaid.
6. State your opinion on these issues in your own country.

UNIT 11 RISK AND INSURANCE BUSINESS

IS IT TRUE THAT ONLY THOSE WHO SUFFER LOSS AND RECEIVE INDEMNITY OBTAIN ANY REAL BENEFIT FROM INSURANCE?

The view is widespread, even among many who are accustomed to carry insurance, that only those who suffer loss and receive indemnity obtain any real benefit from insurance. This view is quite incorrect. Paradoxical as it may seem, the promise to pay if a loss occurs may be fully as valuable as reimbursement after the loss. The reason why this is so is to be found in a consideration of the nature of risk.

WHAT IS RISK?

Risk undoubtedly exists in human life. Moreover, it is rather taken for granted. Few, if any, would dispute the existence of risk. But how widespread is risk? In what affairs of life does it arise? What is meant under the term risk after all?

It is not necessary to define risk narrowly and precisely. A broad definition is needed to cover all that may be implied in the use of the term in connection with the insurance business. Hence, it may be said that **risk** is the chance of loss. This definition is in the abstract. For the term risk is often used by insurance men to mean the concrete thing that is subject to the risk, such as a man or house or ship, on which insurance is desired.

PERSONAL RISKS AND BUSINESS RISKS

The hazards from which loss may arise may be classified according to what may be lost. From this point of view there are two major divisions, each based on the phase of life which is affected: personal and family risks, and business risks.

Personal risks may be subdivided into two groups: loss of income and loss of property.

- *Loss of income* to the individual or family may result from: death; permanent disability, either total or partial; temporary disability, either total or partial; unemployment; and superannuation or old age.
- *Loss of property* may result from:

  1. *Destruction or damage* by: fire or lightning; windstorm; water leakage; earthquake, glass breakage, explosion, riot and civil commotion; burglary, theft or robbery; and forgery.

  2. *Liability for injury* caused to the person or property of another by the negligence of the individual or his agent: (1) where the injury is to the person of an employee; (2) where the injury is to the person of a stranger; and (3) where the injury is to the property of another.

Business risks include most of the risks to which personal life is subject to. To these, however, must be added the risk of loss of capital and income from several other causes, such as: (a) perils of transportation of goods on land and sea; (b) hail, frost and other causes or crop failure; (c) defalcation or other misconduct of employees; (d) failure of contractors to fulfil contracts; (e) failure on depositories; and (f) unusual credit losses on sales.

LEGAL ASPECTS OF INSURANCE AND PRINCIPLE TYPES OF INSURANCE

Insurance is subject to the law of contract, i.e., it must conform to the general rules of law relating to contracts, as well as to those special rules of law applicable to insurance only, whether developed through judicial decisions or by statutory enactment relating to insurance.

Therefore, insurance in law and business is a contract or contractual agreement, commonly called a **policy** whereby, for a stipulated consideration, one party undertakes to compensate the other for loss, damage or liability on a specified subject upon the occurrence of some event or against some risk. The party agreeing to make the

compensation is usually called the **insurer** or **underwriter**, and the other the **insured** or **assured**. The agreed consideration, i.e., sum of money, is called a **premium**, the events insured against are called **risks** or **hazards**, and the subject, right or interest to be protected is called the **insurable interest**. The term assurance has the same meaning as insurance but is generally used in relation to events that will definitely happen at some time or another (especially death), whereas insurance refers to events that may or may not happen.

Principle types of insurance available include life insurance, fire insurance, health insurance, liability insurance and marine insurance. However, most policies of insurance against property damage do not provide compensation for the consequence of acts of God.

1. READING FOR COMPREHENSION

(a) Answer the below given questions.

1. Define the term risk and illustrate the existence of risk in human life with your own examples.
2. State two major divisions, based on the phase of life which is affected.
3. Into how many groups may personal risks be subdivided?
4. Loss of income may result from a number of causes. Identify them.
5. Identify factors from which loss of property may result.
6. The risk of loss of capital and income may result from a number of causes. Identify them.
7. Define the following terms: policy, insurer, insured and insurable interest.
8. Identify principle types of insurance policies.
9. Define the following terms: life insurance, fire insurance, health insurance, and liability insurance.
10. Define the term Act of God and illustrate it with your own examples.

(b) Decide if the following statements are true or false and correct the false ones.

	T	F
1. Risk unveritably exists in human life.	☐	☐
2. It is not necessary to define risk broadly to cover all that may be implied in the use of the term in connection with the insurance business.	☐	☐
3. The term risk is often used by insured men to mean the concrete thing that is subject to the risk, such as a man or house or ship, on which insurance is desired.	☐	☐
4. Personal risks may be subdivided into two groups: loss of income and loss of property.	☐	☐
5. Loss of income and loss of property may result from destruction or damage by fire or lightning, windstorm, water leakage, riot and civil commotion; burglary, theft, etc.	☐	☐
6. Business risks include most of the risks to which business life is subject to. To these, however, must be added the risk of loss of capital and income from several other causes.	☐	☐
7. Insurance in law is a contractured agreement, commonly called a politics**,** in which one party undertakes to compensate the other for the loss or damage caused by it.	☐	☐
8. The party agreeing to make the compensation is usually called the insurer or underwriter, and the other the insured or assured.	☐	☐
9. The only types of insurance available include life insurance, fire insurance, health insurance and liability insurance.	☐	☐

(c) Tick the right answer.

1. *The term risk means:*

   (a) The concrete thing that is subject to risk.

   (b) The chance of loss.

   (c) A man, house or ship, on which insurance is desired.

2. *Personal risks may be subdivided into:*

   (a) Loss of income, loss of property and destruction or damage.

   (b) Loss of income, loss of property and liability for injury.

   (c) Loss of income and loss of property.

3. *Business risks include*:

   (a) Most of the risks to which personal life is subject, to which must be added the risk of loss of capital and income from several other causes.

   (b) A few risks to which personal life is subject, to which must be added the risk of loss of capital and income from several other causes.

   (c) Few risks to which personal life is subject, to which must be added the risk of loss of capital and income from several other causes.

4. *Insurance must conform to:*

   (a) The general rules of law relating to contracts, as well as to those special rules of law applicable to insurance only, developed through judicial decisions.

   (b) The general rules of law relating to contracts, as well as to those special rules of law applicable to insurance only, developed by statutory enactment relating to insurance.

   (c) The general rules of law relating to contracts, as well as to those special rules of law applicable to insurance only, whether developed through judicial decisions or by statutory enactment relating to insurance.

5. *Principle types of insurance available include:*

   (a) Life insurance, fire insurance, burglary insurance and liability insurance.

   (b) Life insurance, fire insurance, health insurance and liability insurance.

   (c) Life insurance, fire insurance, health insurance and robbery insurance.

(d) Replace the expressions in italics with expressions from the text which have the same meaning.

1. Risk ***undisputedly*** exists in human life. Moreover, it is rather ***assumed to be true***.

2. ***Not many***, if any, would ***doubt*** the existence of risk.

3. The ***perils*** from which loss may ***result*** may be classified according to what may be lost.
4. Loss of property may result from destruction or damage by fire or lightning, windstorm, ***breaking and entering***, ***larceny*** or ***taking something away from a person by force***, ***falsification***, etc.
5. Insurance must ***comply with*** the general rules of law relating to contracts.
6. Insurance in law is a contract, ***customarily*** called a policy ***by which***, for ***an agreed payment***, one party undertakes to ***indemnify*** the other for loss, damage or liability on a specified subject upon the occurrence of some event or against some risk.
7. Life insurance involves the ***supposition*** by an insuring organisation of the risk of death of ***an owner of an insurance policy***.
8. Fire insurance is ***acquired*** by owners of homes and commercial properties to provide ***compensation*** in case of losses resulting from fire.

2. MATCHING EXERCISES

(a) Match the terms on the left-hand side with the definitions on the right-hand side.

(a) Insurer	(1) The agreed consideration, i.e., sum of money.
(b) Insurance	(2) It means the concrete thing that is subject to the risk, such as a man or house or ship, on which insurance is desired.
(c) Premium	(3) A system under which the insurer, for a consideration usually agreed upon in advance, promises to reimburse the insured or to render services to the insured in the event that certain accidental occurrences result in losses during a given period.
(d) Risk	(4) The subject, right or interest to be protected.
(e) Insurable interest	(5) The party agreeing to make the compensation.

(b) Match the phrase verbs and verbs idiomatically followed by prepositions on the left-hand side with the verbs or explanations on the right-hand side.

1. The solicitor ***acted for*** his client in negotiating the insurance contract.	(a) To fit to, match with
2. The insurance company ***acted on*** their solicitor's advice.	(b) To have the right qualities
3. He has ***applied to*** a banker for a loan.	(c) To accept something less than one had hoped
4. There are broad underlying principles which ***apply to*** all branches.	(d) To take a chance with
5. He was thinking of ***applying for*** a new loan.	(e) To repay for a loss of money
6. The forms of insurance contracts ***differ in*** a greater or lesser degree.	(f) To have different opinions
7. Their opinions ***differed on*** the nature of risk.	(g) To obey, observe,
8. Insurance policies are ***suited for*** furnishing protection to cover risk.	(h) On behalf of, represent legally
9. You have to ***suit*** your spending ***to*** your insurance benefits.	(i) To appeal, request
10. How much does it cost to ***indemnify*** oneself ***against*** accidental death?	(j) To appertain, relate
11. The insurance company will ***indemnify*** you ***for*** the loss suffered.	(k) To be different with regard to
12. He ***risked*** $50 ***on*** the horse race and lost it all.	(l) To make a formal request
13. They had to ***settle for*** the amount offered.	(m) To finish paying
14. He ***settled with*** all the people he owed money to.	(n) To insure against

(c) Match the opposites.

(1)	Seldom	(a)	imperfect
(2)	Predictable	(b)	true
(3)	Simple	(c)	invalid
(4)	Perfect	(d)	often
(5)	Convenient	(e)	uncertain, erratic
(6)	False	(f)	complex
(7)	Valid	(g)	inappropriate, untimely

(d) Match the Latin phrases and abbreviations with their suitable explanations in English.

(1)	Inter alia	(a)	in bad faith
(2)	Id est (*i.e.*)	(b)	and so on
(3)	Circa (*cca*)	(c)	that is
(4)	Mala fide	(d)	in good faith
(5)	Per se	(e)	among other things
(6)	Etcetera (*etc.*)	(f)	about
(7)	Bona fide	(g)	by or in itself; intrinsically.
(8)	Opere citato (*op. cit.*)	(h)	in the same place, book or passage
(9)	Ibidem (*ibid. or ib.*)	(i)	in the work already quoted

3. WORD FORMATION

(a) By adding prefixes and/or suffixes, insert the correct words from the brackets in the spaces provided.

1. According to their nature, ……..… risks may be divided into two categories: ……..…… risks and …….…….. risks. (ECONOMY, SPECULATION, PURITY)

2. In both these classes there is …… as to the outcome of the event under consideration. (CERTAINTY)

3. As an example of the first class may be mentioned any new, ……. or …….. enterprise. (COMMERCE, MANUFACTURE)

4. Possession of any form of ……. property is an example of exposure to pure risk, since its …… is always possible but never certain. (DESTRUCT, DESTRUCT)

5. From the viewpoint of the …… person, an …… risk is one for which the probability of loss is not so high as to require excessive premiums. (INSURE, INSURE)

6. It is apparent from the foregoing that risk …… exists in human life. (DOUBT)

7. In law and business policy is a …… agreement whereby, for a stipulated consideration, one party undertakes to compensate the other for loss, damage or liability on a specified subject upon the occurrence of some event or against some risk. (CONTRACT)

8. Many types of ……. insurance include, *inter alia*, …… liability for doctors and other professionals - ……. insurance. (LIABLE, PROFESSION, PRACTICE)

9. …… can also be provided against the possibility that one may be ……. to fulfill the terms of a contract or against the risks involved in activities that are considered so …… to other people or property that the law requires persons engaged in them to assume responsibility for their consequences no matter how much care is taken to avoid damage. (PROTECT, ABLE, DANGER)

4. ADJECTIVES AND ADVERBS

Choose either the adjective or the adverb to complete each sentence correctly.

1. The discussion of the theory of risk has not yet reached the stage of a ……..……. (GENERAL, GENERALLY) accepted terminology.
2. The insurance business is subject to ……. (EXTENSIVE, EXTENSIVELY) government regulation in all countries.
3. The ……..……. (PLAIN, PLAINLY) common sense of insurance policy is expressed in the old adage: "Put something aside for a ……..…… (RAINY, RAINLY) day."
4. Where credit is …….. (EXTENSIVE, EXTENSIVELY) used as a basis of economic action the burden of risk is increased.
5. Insurance relies …… (HEAVY, HEAVILY) on the "law of large numbers".

5. PREPOSITIONS

Supply the missing prepositions.

The transaction …… which risk is transferred …… the individual …… the insurer resembles …… many respects a bet and is often referred …… as such. It is said, for example, that the householder bets $20 that his house will burn …… a three-year period against the insurer's wager …… $3,000 that it will not. The resemblance, when the transaction is stated …… this form, cannot be denied, and it is often claimed that insurance is, …… essence, gambling. …… the other hand, a bet …… the way a coin will fall, or …… the result …… a horse race will be readily recognised as gambling. Before the bet is laid, the fortune …… neither …… the betters can be influenced …… the uncertain future event. Neither is

subject …… a risk …… account …… it. After the bet has been made each is subject …… a risk …… loss.

Thus, …… negotiating an insurance contract where one is subject …… no risk is not really taking insurance, but gambling. Only those subject …… risk should be permitted to take out a valid policy. Being subject to risk implies that their relation ……, or interest ……, the property is such that destruction …… the property would result …… injury to them. Such an interest is insurable interest and an insured must have an insurable interest if the policy is to be valid. If an insurable interest is not present, the contract is invalid; it is a gambling contract.

Hence, while the transaction of insurance has some resemblance …… certain forms …… gambling, it is …… essence the opposite, gambling always involving the creation …… risk, and insurance its elimination.

Insurance, while eliminating risk and redistributing loss, does not, …… so doing, reduce actual loss, and the existence …… insurance does not justify the inattention …… prevention.

6. THE ARTICLES

Fill in the missing articles.

Life insurance may be one of …… most important purchases you will ever make. In …… event of tragedy, it helps make sure that …… people you care about will be provided for financily even if you are not there to care for them yourself. Life insurance makes sure that your plans for …… future do not die when you do.

There are many kinds of life insurance but they generally fall into two categories: term insurance and permanent insurance. The former provides protection for ……

specified period of time (…… term) and generally pays …… benefit only if you die during …… term. In contrast, permanent insurance provides lifelong protection. As long as you pay …… premiums, and no loans, withdrawals or surrenders are taken, …… full face amount will be paid.

If you are …… kind of person who likes premiums that will remain fixed and predictablle over time, you may want to consider whole-life or ordinary life (permanent insurance), variable life, universal life or variable universal life. It is impossible to say which type is better because …… kind of that is right for you depend on your unique circumstances and financial goals.

7. THE TENSES

Fill in the blank spaces in the text with correct verb forms.

Contract law …… (SEEK) to protect parties to an agreement not only by ……. (REQUIRE) formalities but in many other ways as well. Thus rules that …… (RESPECT) deceit, fraud, and undue influence …… (DESIGN) to ensure that contractual obligations …….. (ASSUME) freely and without one party ……. (MISLEAD) the other. However, catastrophic events such as natural disasters, inflation, or political upheaval, …….. (UPSET) the economy of a contract.

Because such events are beyond human control, ordinarily no person …….. (HOLD) legally responsible for the injuries and losses they …….. (INFLICT). Therefore, relief …… (BE) frequently available under theories of *force majeure* or action by a superior or irresistible force, and “act of God” (act of nature that is unforeseeable and unpreventable by human intervention). For example, a failure ……..……. (DELIVER) goods at the time

contracted because unforeseeable floods …….. (HALT) all transportation …… (NOT/RESULT) in liability for legal damages. In this context, the exemption ……..(NOT/APPLY) in the event of seasonal inundations such as monsoons. All standard fire insurance policies, however, …… (COVER) losses from fire caused by lightning; by the payment of an additional premium, so-called extended coverage …… (BE) available …….. (PROTECT) against damage from (natural) hazards such as the following: windstorms, hail, ice, snow, and falling trees.

Review and discussion questions

Since the contract of insurance must do two things clearly, first, define the risk transferred, and, second, make plain the procedure of settling the loss which may occur, the forms of contracts used in the several branches differ in greater or lesser degree. The insurance contract in general is a contract for the purpose of transferring financial risk. For it is apparent that it is impossible to transfer every risk. Risks of loss of sentimental values cannot be transferred. Risk of loss of unique physical values can be transferred by sale of the object, but not without parting with the ownership which makes loss, and hence risk, possible. After reading the following examples, try to answer the below given questions.

1. If *A* is owner of a property and is subject to risk from its possible loss, and the risk is to be transferred to *B*, then, upon transfer, if it is to be complete, *A* must be free of all risk in the matter and *B* must be subject to the same risk to which *A* was previously subject.
2. Let the property be a house. *A* might sell the house to *B*. Then, *A* would be free from the risk of house destruction, and *B* subject to it. *A* might enter into a contract with *B* that, if the house burns, *B* would rebuild it. The transfer is not so complete here. For while *A* would have a new house he would have to wait until *B* could build it, and while *B* would have to build a house he would have none of

the inconveniences *A* would have. *A* might contract with *B* to furnish the funds for rebuilding instead to rebuild.

3. Now, suppose it was an original Gogh which *A* possessed and decided to sell to *B*.
4. Suppose that, instead of a house or Gogh, the property which might be burned was a crude table, fashioned by the hand of a boy, his son, who, in his early manhood, had been killed in war. The father cannot place a value upon it, so precious does it seem. He could not sell it for a dime, for to another its value is only kindling.

Questions

1. State whether the first example has to do with transferring financial risk. Explain whether it is generally possible to make such transfer of risk without any limitations.
2. Would you prefer the new house or ready cash if you were in the position of *A*? Defend your position.
3. In reference to the third example, state how could *A* transfer the risk. Could he contract to have it replaced? What could he do? Would *A* have transferred to *B* his precise risk?
4. Can the father transfer his loss or risk? How?
5. What about life insurance if insurance deals with the risk of loss of marketable (cash) value? Can a human life have a cash value placed upon it?
6. What about gaming and wagering contracts? Can action be brought to recover any money paid or won under such contracts? Why?

UNIT 12 TYPES OF INSURANCE POLICIES

PRINCIPAL TYPES OF INSURANCE POLICIES

To most people of today, insurance policies are everyday affairs. They are taken as a matter of course. Few businessmen read them. Still fewer understand them. When they find the obligation of the insurer not so full as they believed it to be, there is a tendency to assume wrongdoing of the insurer on the part of the insurer, and, in righteous indignation, to rush to the legislature, for remedy.

Much of this irritation would be avoided if there were a clearer understanding of insurance contracts. They are not difficult to comprehend if approached from the right point of view. So, let us start with major types of insurance. As already said, the principal types of insurance available include life insurance, fire insurance, health insurance, liability insurance and marine insurance.

Life insurance. It involves the assumption by an insuring organisation of the risk of death of a policyholder. Unlike loss in insurance on property, the element of uncertainty in life insurance is not if death will occur, but when. There are two fundamental types of contracts based upon life contingencies: *whole-life policy* or life policy. The premim may be payable throughout life or limited to a term of years, or even be made in a single payment. On the basis of these three methods of payment, there are three types of contract known: *ordinary-life*, *limited-payment life*, and *single-premium life* policies. Insurance under which the benefit is paid if the life in question survives a set time limit, known as endowment period. If the payments are at one-year or shorter intervals, it is known as *annuity*.

Fire insurance. The statement "The fire insurance policy is probably the most important contract in the world" need not be elaborated because the universality of the practice of insurance against fire supports it, whether from the point of view of the number of contracts issued, or of the values covered by such contracts.

Fire insurance is obtained by owners of homes and commercial properties to provide reimbursement in case of losses resulting from fire. Such insurance is supplied in exchange for the payment of a premium. The basic fire-insurance policy covers losses resulting directly from damage or destruction by fire or lightning. Coverage can be extended to include damage from such perils as windstorm, hail, explosion, and riot.

Helath insurance. Health insurance or disability (accident and health) insurance is to meet the costs of sickness and disability. It pays for physicians, hospitals,

and other providers of medical services. In a basic private health insurance policy, medical services are generally free to the users up to a certain limit, and the physician or hospital agrees to accept a certain fee or rate schedule. Additional benefits are paid for such other services as in-hospital laboratory tests, X rays, and the use of the operating room.

Liability insurance. These contracts, in contrast to all the insurance contracts heretofore considered, covering the possibility of loss due to physical risk to which either the insured's person or property is exposed, do not cover such a risk. They cover a risk of financial loss due to the occurrence of damage, resulting from negligent conduct, to the person or property other than the insured, for which the insured is, or is claimed to be, legaly liable to respond in damages. The negligent act may be one that causes personal injury, death, or property damage. Liability for negligence may result not only from the conduct of the insured, but also from the conduct of his or her agents and employees. The liability insurances, together with the closely associated coverage of workmen's compensation, are therefore frequently called *third-party insurance*. The most important of the liability insurances refer to the *automobile liability insurance policies*, which assume the risk of financial loss arising from liability for bodily injury or property damage to third parties caused by automobile accidents.

Liability insurance protection is also provided by various policies that assume the risk of legal liability of those who own, operate, or occupy residential or business premises, who manufacture or distribute commodities, or who render services.

Special policies are available to manufacturers and merchants to cover possible legal suits arising from defective products that cause injury or death to the purchaser. Professional (*malpractice*) liability protection is an important kind of insurance, especially for members of the medical profession. Comprehensive personal liability insurance is used widely by tenants and homeowners to protect themselves against legal liability for negligent maintenance and operation of the premises.

Marine insurance. The field of insurance that generally applies to the risk associated with the transportation of goods. It is a mixture of broad property coverages, divided between *land risks* (inland marine) and *sea risks* (ocean marine). Inland marine insurance covers perils incidental to transportation of property and deals mostly with personal and commercial property of a mobile nature. Ocean marine insurance is broken into three basic types: *hull*, *cargo*, and *protection and indemnity* (P & I). Hull insurance affords protection to owners of all types of ships for loss or damage to their waterborne property. Cargo insurance usually covers the movement of goods by sea or air from "warehouse to warehouse," thus including exposure to those risks that are as-

sociated with land transportation as well. Protection and indemnity insurance protects the vessel owners against their liability for damage to cargo in their care and custody; death or injury to passengers, crew, cargo loaders, and others; damage caused to piers, docks, underwater cables, and bridges; and damage caused by pollution.

ACT OF GOD OR FORCE MAJEURE

However, most policies of insurance against property damage do not provide compensation for the consequence of acts of God. Act of God in law denotes any occurrence not caused by human intervention or negligence, such as lightning or floods. Because such events are beyond human control, ordinarily no person may be held legally responsible for the injuries and losses they may inflict. For example, a failure to deliver goods at the time contracted because unforeseeable floods have halted all transportation does not result in liability for legal damages. In this context, the exemption may not apply in the event of seasonal inundations such as monsoons. All standard fire insurance policies, however, do cover losses from fire caused by lightning; by the payment of an additional premium, so-called extended coverage is available to protect against damage from (natural) hazards such as the following: windstorms, hail, ice, snow, and falling trees.

1. READING FOR COMPREHENSION

(a) Answer the below given questions.

1. State the principal types of insurance.
2. List three types of life insurance contract.
3. Define fire insurance.
4. What does health insurance pay for?
5. Contrast liability insurance contract to other contracts and state the most important of them all.
6. Define marine insurance.
7. What do inland marine insurance and ocean marine insurance cover?
8. Define the term Act of God.

(b) Decide if the following statements are true or false and correct the false ones.

	T	F
1. When they find the obligation of the insurer not so complete as they believed it to be, there is a tendency to assume wrongdoing of the insurer on the part of the insured, and, in righteous contempt, to rush to the legislature, for remedy.	☐	☐
2. Much of this anxiety would be avoided if there was a clearer understanding of insurance contracts.	☐	☐
3. Like loss in insurance on property, the element of certainty in life insurance is not if death will occur, but when.	☐	☐
4. In whole-life policy the premim may be payable throughout life or limited to a term of years, or even be made in a single payment.	☐	☐
5. Insurance under which the benefit is paid if the life in question survives a set time limit, known as annuity period.	☐	☐
6. Liability insurance contracts, in contrast to all the insurance contracts therefore considered, covering the possibility of loss due to physical risk to which either the insured's person or property is exposed, cover such a risk.	☐	☐
7. The field of insurance that generally applies to the risk associated with the transportation of goods.	☐	☐
8. Lowland marine insurance covers hazards accidental to transportation of property and deals mostly with personal and commercial property of imobile nature.	☐	☐
9. Force majeure in law denotes any occurrence not caused by human intervention or negligence, such as lightning or floods.	☐	☐

(c) Tick the right answer.

1. *Fire insurance is supplied:*

   (a) in exchange for indemnity.

   (b) in exchange for the payment of a premium.

   (c) in exchange for the loss incurred.

2. *In a basic private health insurance policy, medical services are:*
   (a) generally free to the users to no limit.
   (b) seldom free to the users up to a certain limit.
   (c) generally free to the users up to a certain limit.
3. *The negligent act may be one that causes:*
   (a) personal injury, death, or property damage.
   (b) personal injury, death, or property loss.
   (c) personal injury, death, or property damages.
4. *Comprehensive personal liability insurance is used widely by:*
   (a) tenants and landowners.
   (b) renters and homeowners.
   (c) tenants and homeowners.
5. *Hull insurance affords protection to owners of all types of ships for:*
   (a) loss or damage to their waterborne property.
   (b) loss or damage to their seaborne property.
   (c) loss or damage to their landborne property.

(d) Replace the expressions in italics with expressions from the text which have the same meaning.

1. To most people of today, insurance policies are ***quite common***.
2. They are taken ***as a natural outcome***.
3. When they find the obligation of the insurer not so full as they believed it to be, there is a tendency to assume ***law-breaking*** of the insurer ***by*** the insurer, and, in ***just anger***, to rush to the legislature, for remedy.
4. The statement "The fire insurance policy is probably the most important contract in the world" need not be ***developed*** because the ***general applicability*** of the practice of insurance against fire ***corroborates*** it, whether from the point of view of the number of contracts issued, or of the values covered by such contracts.
5. The ***act of carelessness*** may be one that causes personal injury, death, or property damage.
6. Fire insurance is ***received*** by owners of homes and commercial properties ***to make compensation*** in case of losses resulting from fire.

2. MATCHING EXERCISES

Match the terms on the left-hand side with the definitions on the right-hand side.

(a) Annuity	(1) It is especially important for members of the medical profession.
(b) Third-party insurance	(2) It generally applies to the risk associated with the transportation of goods, divided between land risks and sea risks.
(c) Malpractice liability protection	(3) It affords protection to owners of all types of ships for loss or damage to their waterborne property.
(d) Marine insurance	(4) The liability insurances together with the closely associated coverage of workmen's compensation.
(e) Hullborne protection	(5) Insurance under which the benefit is paid if the life in question survives a set time limit, the payments of which are at one-year or shorter intervals.

3. ARTICLES

Supply the missing articles

Disability insurance is …… type of health insurance. Disability insurance is …… product that is designed to replace …… portion of your income in case you are hurt in …… accident, or get …… illness and cannot work for …… period of time.

The benefit period is …… amount of time you will receive monthly benefits during your life. Experts usually recommend that …… policy you buy pay you benefits until at least age 65, at which point Social Security disability will take over. If you are young, you may consider buying …… policy offering lifetime benefits because it will still be relatively inexpensive.

Every disability policy imposes …… *waiting period*, also known as …… *elimination period*. This is …… number of days you must be disabled before receiving

benefits. If you are disabled during …… elimination period, you will not receive any benefits, even though you are not able to work. If …… elimination period is short, such as 30 or 60 days, …… premium will be higher**.** …… longer elimination period may strain your finances more when you need it, but you will be charged …… lower premium. Most experts recommend that you select …… elimination period of 60 to 90 days. …… first check is usually paid 30 days after …… waiting period.

4. PREPOSITIONS

Supply the missing prepositions.

Disability insurance costs are highly dependent …… occupation …… obvious reasons: a person …… a dangerous occupation is more likely to become disabled, so if they are eligible, options may be limited and insurance costs could be high. There are three main definitions available today:

- **Own Occupation.** This it the best definition …… disability available. It means that if you suffer an accident or illness that prevents you …… working …… your occupation, you will get paid, even if you can work …… another job.
- **Modified Own Occupation.** This is an income replacement policy, and is one step down …… a true own occupation policy. If you return …… work …… another position, the insurance company will reduce or eliminate your monthly benefits.
- **Any Occupation.** This is the worst definition available. If the insurance company decides you can perform any occupation, they will not consider you disabled. Keep …… mind that many policies start off as a modified own occupation definition …… a period of time (2-5 years), and then revert …… this any occupation definition. This is very typical of group LTD policies which people have …… work.

No two disability policies are the same. Because …… this, you cannot base a decision …… price alone. Generally, a cheaper contract will not pay you …… as many situations as a more expensive one. The better contracts cost more because they are more comprehensive.

5. THE TENSES

Fill in the blank spaces in the text with correct verb forms.

Risks or hazards or perils that …… often (COVER) by insurance include burglary, robbery and theft. However, as the demand …… **(**ARISE) for coverage of a risk or a combination of risks that …… (NOT/COVER) by existing forms, new forms …… (PUT) on the market …… (MEET) it.

We …… (MENTION) but a few different classes of coverage in use: ***(1) residence insurance***, which …… (COVER) loss of or damage to personal property within residences by (*a)* burglary, (*b)* roberry, or (*c)* larceny or theft; ***(2) personal hold-up insurance***, which …… (COVER) loss of personal property by robbery; ***(3) world wide***, …… (COVER) loss or damage to specifically named articles of jewelry, furs anywhere in the world by (*a)* burglary, (*b)* roberry, or (*c)* theft or larceny; ***(4) bank burglary insurance***, which …… (COVER) loss of or damage to money and securities in safes or vaults by burglary; ***(5) bank robbery insurance***, …… (COVER) loss of or damage to money and securities within the premises of the bank by robbery; ***(6) safe deposit box insurance***, which …… (COVER) loss of or damage to securities, silverware, and jewelry in safe deposit boxes by (*a)* burglary, or (*b)* roberry; ***(7) office burglary and robbery policy***, …… (COVER) loss not exceeding $250 or any other specified sum of money, ***(8) church burglary, robbery, theft and larceny***, which …… (COVER) loss or damage by burglary, robbery, theft and larceny of property, including money and securities common to Houses of Worship within the church building, any rectory or any other building owned or leased by the insured for the conducting of religious activities, etc.

Review and discussion questions

So far we have discussed both the principal types of insurance, i.e., life insurance, fire insurance, health insurance, liability insurance and marine insurance, and other types of insurance, such as auto insurance, travel insurance, terrorism insurance, etc. We have also talked over the types of social insurance, pension schemes: voluntary vs. compulsory, though not the issues concerning the insurance market in Serbia. In order to answer the below given questions, you will need to have more information on this issue. Below are offered some guidelines on the economic trends in Serbia and Montenegro and insurance market in Serbia.

1. According to the first estimation of the Federal Statistical Office for the year 2003, as compared to 2002, there was an increase in the GDP of 1,5% as a result of a 12% increase in retail trade, 10,5% in building and transport industries and, above all, in telecommunications, i.e., mobile telecommunications. In 2003, the annual retail prices went up 11,2% and living expenses were 9,4% higher than in the previous year. According to the European standards, unemployement rate in Serbia was 24%, which is very high, if compared to the EU countries where it is approximately 8%. The monthly net wage in Serbia was 14,528 dinars. Savings in domestic and foreign currencies went up; savings in dinars increased by 22% and foreign currency savings, especially long-term savings, increased by 156,5%.
2. In 2003, there were 38 insurance companies on the insurance market in Serbia and Montenegro, most of which were organised as joint stock companies. One was registered for mutual insurance and three were reinsurance companies. In 2002, they jointly achieved the gross written insurance premium of 367,5 m euros. In 2003, the first top ten companies participated in the overall written premium with approximately 89%. In 2002, non-life insurance participated with about 99% in total written premium, out of which 49,4% went to motor vehicles insurance and 43% to property insurance. The fact that life insurance participated with modest 1%, explains how undeveloped the local insurance market is.
3. In 2004, however, the business of insurance in Serbia has gone through a radical transformation. The new Law on Insurance was adopted in May 2004, establishing the new regulatory body, the Insurance Supervision Department within the National Bank of Serbia. The regulatory body is in the process of adopting by-laws, i.e., rules governing its internal affairs.
4. There are twenty-two insurance companies currently operating in Serbia. The majority deals only in compulsory third-party insurance. Only five companies are engaged in selling life insurance: Dunav Osiguranje, DDOR Novi Sad, Zepter osiguranje, Delta osiguranje and Wiener Stadtische. The two largest companies

are Dunav Osiguranje and DDOR Novi Sad. The number of insurance companies is expected to decrease.

5. In early December, the NBS revoked the licences of 11 insurance companies in Serbia and initiated bankruptcy proceedings against them citing numerous wrongdoings, ranging from forged balance sheets to channeling financial resources to various connected parties. On January 19, 2005, the NBS revoked seven more licences.
6. The reinsurance business is not very developed in Serbia; currently there are only 3 companies operating in this field: Dunav Re, DDOR Novi Sad and Delta Re.
7. In 2003, invoiced gross insurance premiums in Serbia amounted roughly to $429 m, which can be qualified as stagnation compared to 2002. The largest share of this revenue (about two thirds) was due to compulsory insurance of motor vehicles and industries as a result of low living standard, instability and lack of confidence in the local currency. However, two relatively new services available on the market, private health insurance and private pension insurance, are probably the most promising insurances in Serbia.

Questions

1. What legal requirements must be met to establish an insurance company in Serbia? Can the joint stock capital be entirely foreign? Can a foreign insurance company open its representative office in Serbia? What about Wiener Städtische? Is it registered as a foreign or a domestic insurance company? Consider all these questions and find out what is needed for a a foreign insurance company to be registered in Serbia according to the new law.
2. What types of non-life insurance are offered on the market?
3. State your reasons for undeveloped reinsurance business in Serbia.
4. Apart from low living standard, instability and lack of confidence in the local currency, are there any other reasons for inadequate interest in insurance?