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Plenary 3

New Stringent Avenues of Corporate Governance

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NEW STRINGENT AVENUES OF CORPORATE GOVERNANCE:

Presentation by Mr. G. N. Bajpai
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IOSCO ANNUAL CONFERENCE
OCTOBER 17, 2003
SEOUL



Agenda

- ◆ Impact of recent scandals
- ◆ Role of regulators in corporate governance
- ◆ Legislative Facilitation of role of regulator
- ◆ Enhanced Role of Market Forces
- ◆ Corporate Governance and International Co-operation



Recent scandals

ENRON

**WORLD
COM**

TYCO

**ARTHUR
ANDERSEN**

MCI

ADELPHIA

Recent scandals

- ◆ Fortunately no major scandals in India involving corporate governance
- ◆ Corporate Governance is key to investors' faith in market
- ◆ Indian markets have witnessed deep cleaning and are displaying relative resilience

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
SEBI's role in corporate governance

To induce market confidence by:

- Enabling highest standards of governance
- Ensuring disclosure: avoid shocks to the market
- Giving a reliable, efficient market system for participants to transact efficiently
- Demonstrating reliable and effective enforcement



Enabling the highest governance standards

- ◆ Encouraging governance and value creation (GVC) Ratings 
- ◆ Amendments to Listing Agreements to ensure:
 - Optimum combination of executive and non-executive directors
 - Non executive directors' compensation to be approved by shareholders and disclosed
 - Independent Director to periodically review legal compliance reports
 - Company to lay down the code of conduct for all Board members and senior management
 - Specifying powers and responsibilities of Audit Committee

Setting and enforcing disclosure standards

- ◆ Reforms of audit process to improve quality of financial information
- ◆ Related party transactions
- ◆ Board Disclosures on Risk management
- ◆ Proceeds from Initial Public Offerings (IPOs)
- ◆ Remuneration of directors
- ◆ Report on Corporate Governance



Ensuring market efficiency

- ◆ Electronic trading and settlement
- ◆ Shorter settlement cycles
- ◆ Enabling availability of high-quality financial information for price discovery
- ◆ Maintaining high standards of quality and conduct for market participants
- ◆ Ensuring that markets are run in a fair and transparent manner

Demonstrating reliable and effective enforcement

◆ GREATER

- Commitment
- Concern

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Legislative facilitation of role of regulator

Amendments to the Companies Act

Reforming the Audit Process

- Appointment and qualifications of auditors
- Prohibited non-audit services
- Compulsory Audit Partner Rotation
- CEO and CFO certification of annual audited accounts
- Proposed disciplinary mechanism for auditors

Reforming Boards:

- Defining an independent director
- Remuneration of non-executive directors
- Training of independent directors



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Enhanced Role of Market Forces:

- ◆ Accounting Standards Board
- ◆ Auditors
- ◆ Institutional Investors
- ◆ Analysts
- ◆ Rating Agencies
- ◆ Stock Exchanges
- ◆ Shareholders

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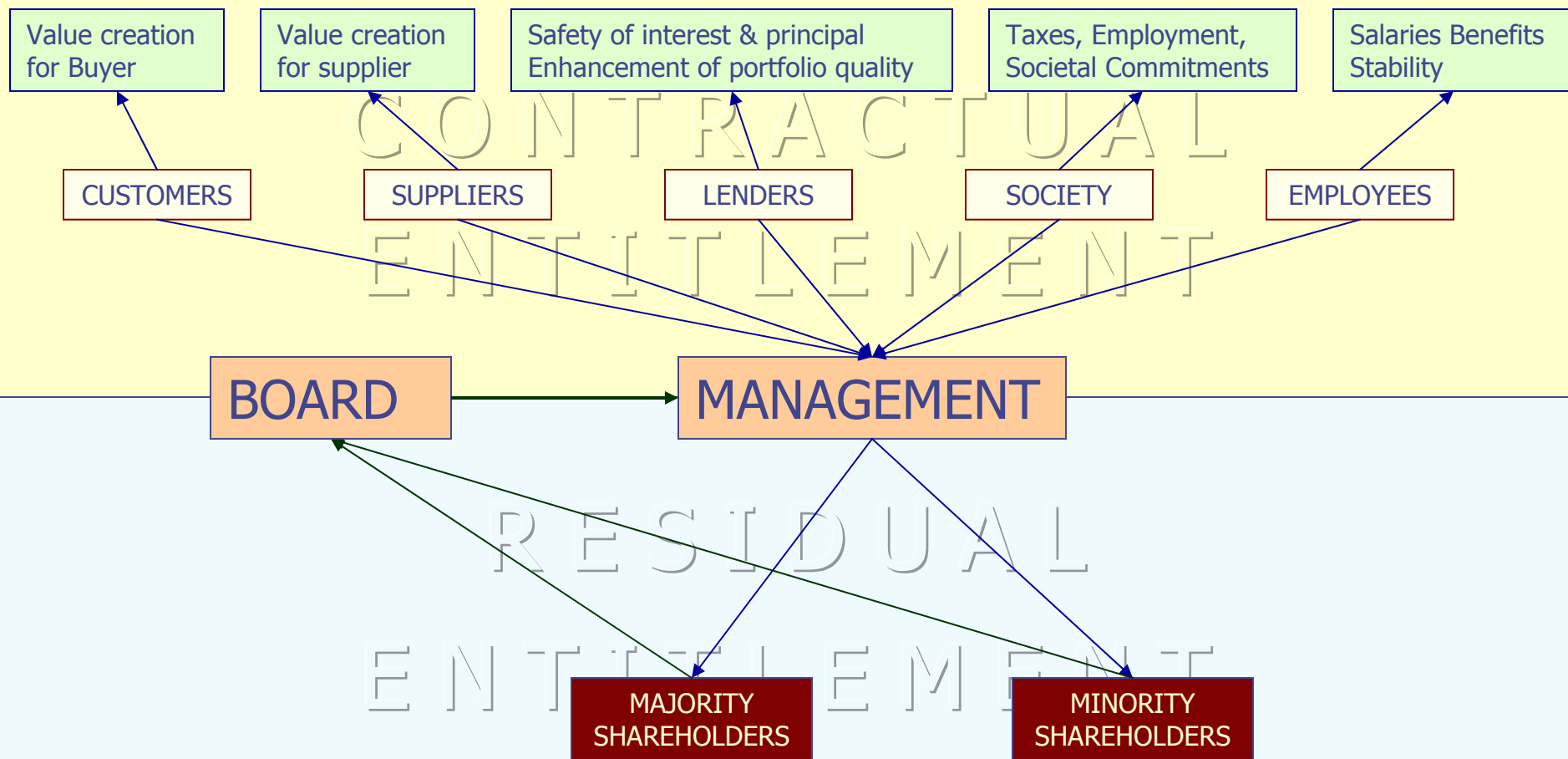
International Cooperation

- ◆ Enhanced CG standards imperative for emerging markets
- ◆ Cross Border Capital Flows
- ◆ Multiple codes, guidelines create confusion
- ◆ IOSCO should play a leading role in formulating and implementing new globally accepted standards

Thank You



The corporate value chain



Value 
Control 



The GVC view of the corporation

Sust
wealth

- Strength of stakeholder relationships can add to/impede future wealth creation by the corporation
- Governance Processes must be such that wealth created is uniformly distributed across all classes of shareholders (traditional CG evaluation)
- Management quality must be such that it is able to adapt the above two to match the dynamics of the business environment
- All these impact stability of future wealth creation

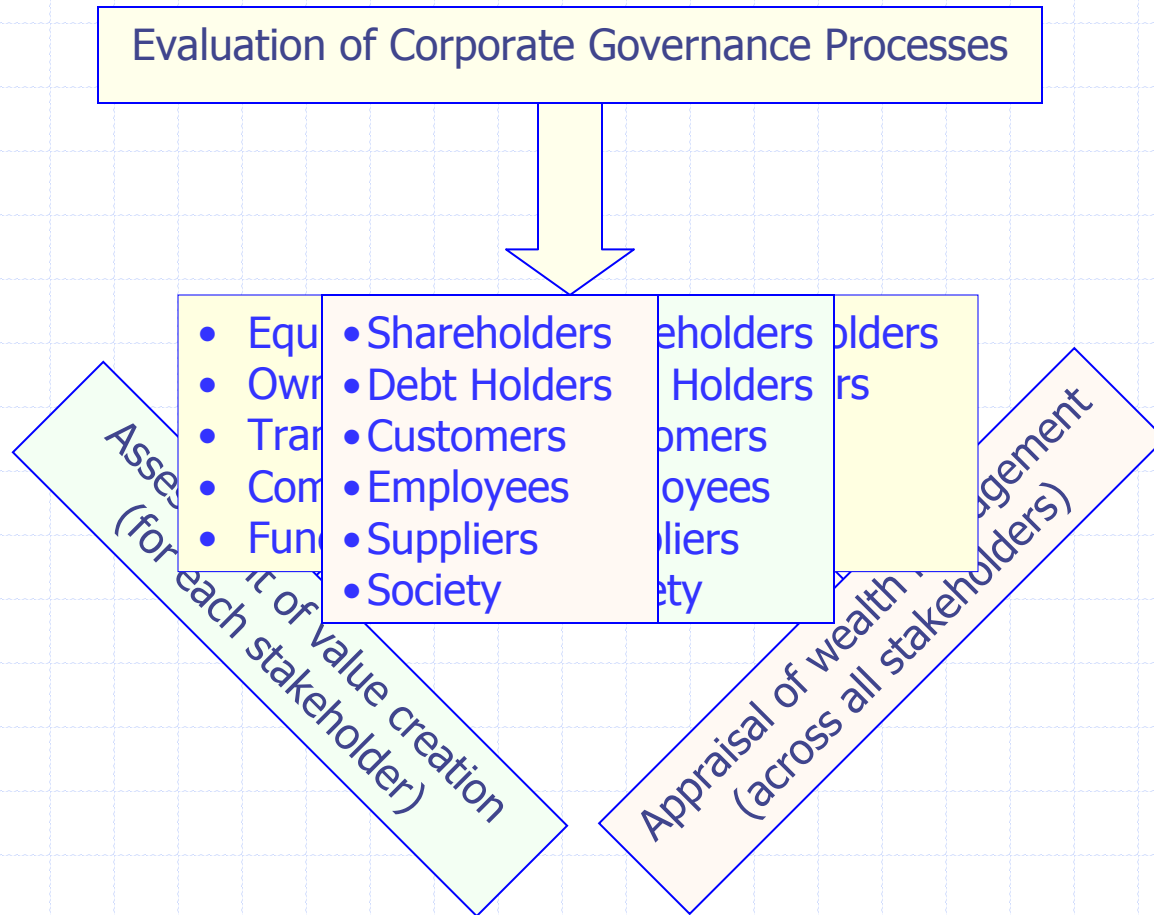
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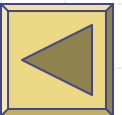


GVC – a comprehensive assessment



Traditional CG Ratings vs GVC Ratings

- ◆ Primarily focus on internal processes
- ◆ Focus on treatment and rights of shareholders
- ◆ Either qualitative or purely historical in orientation
- ◆ Balance process assessment with measures of benefits of good governance
- ◆ Balanced assessment for all stakeholders
- ◆ Focus on sustainability of practices



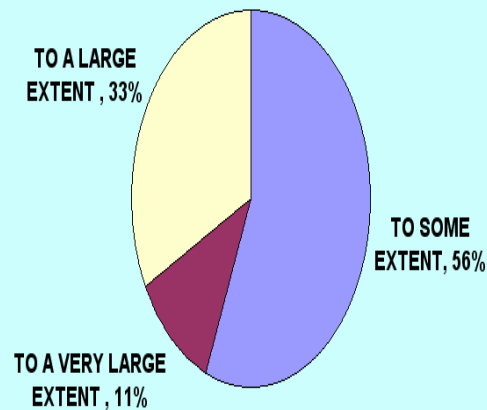
Audit Process Review

- ◆ Qualified and Independent Audit Committee
- ◆ Oversight of the company's financial reporting process
- ◆ Recommending the appointment and removal of external auditor
- ◆ Reviewing with the management, external and internal auditors, the adequacy of internal control systems
- ◆ Reviewing the company's financial and risk management policies

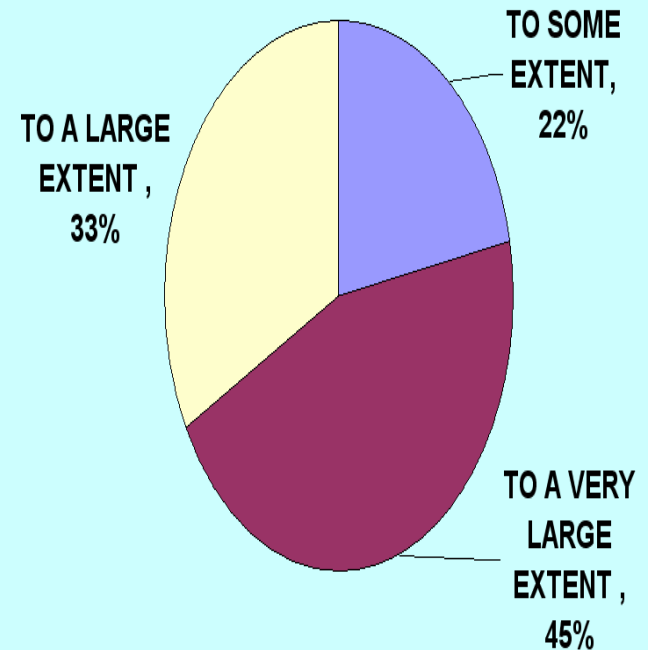


Impact Of CG Code In India

IS THE CG CODE IMPLEMENTED IN SPIRIT?



HAS THE CODE INFLUENCED COMPANIES IN MAKING ACCURATE AND TIMELY DISCLOSURES?



Source: PricewaterhouseCoopers(pvt.) Limited

