Plenary 3

New Stringent Avenues of Corporate Governance

Mr. G. N. Bajpai

Chairman of the Securities and Exchange Board of India

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NEW STRINGENT AVENUES OF CORPORATE GOVERNANCE:

Presentation by Mr. G. N. Bajpai
Chairman, Securities and Exchange Board of India

IOSCO ANNUAL CONFERENCE
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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
Agenda

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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
Agenda

- Impact of recent scandals
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- Legislative Facilitation of role of regulator
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- Corporate Governance and International Co-operation
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
Agenda

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Enhanced Role of Market Forces:

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

- Impact of recent scandals
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- Corporate Governance and International Co-operation
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 creation for Buyer
Value creation for supplier
Safety of interest & principal
Enhancement of portfolio quality
Taxes, Employment, Societal Commitments
Salaries Benefits
Stability

CUSTOMERS
SUPPLIERS
LENDERS
SOCIETY
EMPLOYEES

BOARD
MANAGEMENT

MAJORITY
SHAREHOLDERS
MINORITY
SHAREHOLDERS

Value
Control
The GVC view of the corporation

- 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.
GVC – a comprehensive assessment

Evaluation of Corporate Governance Processes

- Equitable Treatment of Shareholders
- Ownership rights of shareholders
- Transparency & disclosure
- Composition of Board
- Functioning of Board
- Shareholders
- Debt Holders
- Customers
- Employees
- Suppliers
- Society

Assessment (for each stakeholder)

Appraisal of wealth management (across all stakeholders)
<table>
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<tr>
<th>Traditional CG Ratings vs GVC Ratings</th>
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<tr>
<td>♦ Primarily focus on internal processes</td>
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<tr>
<td>♦ Focus on treatment and rights of shareholders</td>
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<tr>
<td>♦ Either qualitative or purely historical in orientation</td>
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<tr>
<td>♦ Balance process assessment with measures of benefits of good governance</td>
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<tr>
<td>♦ Balanced assessment for all stakeholders</td>
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<td>♦ Focus on sustainability of practices</td>
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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?**
- To a large extent, 33%
- To some extent, 56%
- To a very large extent, 11%

**Has the code influenced companies in making accurate and timely disclosures?**
- To a large extent, 33%
- To some extent, 22%
- To a very large extent, 45%

Source: PricewaterhouseCoopers (pvt.) Limited