

National Foundation for Corporate Governance

National Conclave on Corporate Governance in India : *Disclosure Practices – Accounting and Audit*

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Inaugural Session

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We all learn from each other. Instead of his saying that he learnt a lot for me. I learn a lot from you and I learn a lot from everyone. While it is a great initiative which has been taken up by NFCG, and Ministry and I think first we have to congratulate them for taken this initiative to make us all familiar with what is the need and why do we need to have Corporate Governance in our entire Corporate Sector.

Let me just tell you a little background more then what Arun said. Way back in 1986 and 1987 we already started talking about Corporate Governance in a small group within CII at that time in Delhi much before corporate governance came to center stage. Consensus among members we could not this time enforce anything but we said okay, those who accept this will follow the following rules with regard to transparency. I think that is the genesis of Corporate Governance in CII and Rahul Bajaj, myself, Subodh and some of us were involved in that. While the business environment is of course changing fast that it is not possible for us to keep track of what is happening every day.

An article, which appeared yesterday in the Strategist and the business standard and he talks of, our independent directors capable of really offsetting the risks which a company faces or are they just don't raise any questions or just saying that things are going well, I am independent. But it is really happening that we have the knowledge base to understand the risks, which

are involved and what could be the risk which we can set of before hand by taking proper action. And this is become a major discussion point in the United States. What I am saying is that the business environment not only in India but globally is changing so fast that we need to address new and new issues concerning Corporate Governance if you really want to become Internationally globally acceptable organizations. Fortunately for India we are now one of the fast growing Economies and Indian Corporate are really raring to go forward, to move forward to a higher trajectory then what it has been now apart from question of simply a 9% plus Growth rate. We are talking much beyond that.

Performance has been continuously showing improvement with the GDP growth or even more than the GDP growth and there is a greater then have a average urge of the Indian economy to upsurge and touch newer heights. Indian corporate are today looking at investments, acquisitions abroad which was not the story at all 3-4 years back. Today they are looking at acquisitions and mostly starting with the United States then the second focus area is Asia and lastly, Europe. But lot of movement has taken place. What does this mean to all of us in the corporate sector? If we have to be involved in the corporate sector abroad we must also be aware what are the various issues concerning governance, concerning risks and how we should move in those directions where we become accepted. We have a lot of stories which initially tried the Indian industry to get into those particularly in Europe and failed because they were unable to understand the dynamics of the business environment there. Therefore we need to understand the dynamics, we need to understand what is Governance and we need to understand the risks this. That is what is actually the new challenge today the Indian Industry has to face.

In terms of Corporate Governance that we are trying to follow up, the role of all stakeholders-the Government, the regulators, the law makers and the Industry have a fundamental role to play in evolving and shaping the overall business environment and governance structure. Each one has the role and we must have an interactive role understanding otherwise what happens is the one takes the decision in respect of their roles without considering what it might affect other stakeholders. That is what is actually being tried to be done by the National Conclave on Corporate Governance, which has been set up by the Ministry of Corporate Affairs. The reoriented MCA – Ministry of Corporate Affairs, is effectively performing its part as a causal stakeholder

and is admirably dealing with the challenges of the transforming business environment. Earlier known as Department of Company Affairs which I was used to now it has become Corporate Affairs. Under the Ministry of Finance MCA was designated as a separate ministry in the year 2004. It has recently been rechristened as Ministry of Corporate Affairs from the ministry of company affairs to reflect its outlook, changed vision and renewed approach. It has extended far beyond its traditional role as a lawmaker and a regulator and has now established itself as a facilitator. This is very important for us to understand they are now acting not only as a rule maker and law maker and regulator but also as a facilitator. This is the advantage benefit which Industry can derive today if you can work together with them.

MCA now provides a platform for inclusive discussions, interactions and suggestions adding momentum to the business environment. The Ministry has also transformed the process of law making by encouraging industry representation at various stages of Legislation to understand the need for Legislation, the implication of the legislation and how it could be smoothly implemented. This is being discussed in advance with the industry representatives, which makes the implementation much easier.

I would also like to use this forum to appreciate the inimitable efforts of Hon'ble minister for corporate affairs Shri Prem Chand Gupta. Shri Gupta with his committed efforts has infused new life into the activities of MCA by providing futuristic leadership to the Ministry and spearheading its unique initiatives and the officials which are with him as you will now listen on to Mr Khosla have actually followed that path very vigorously. Through his dialogue oriented approach the minister has consistently preferred an open ear to the suggestions and recommendations of the industry and work towards making them forward.

I would like to take the opportunity to highlight the key initiatives of MCA, which we strongly believe are truly beneficial and required for the industry. The landmark e-governance program of the ministry MCA 21 and envisaging electronic filing of companies' documents through interactive and paperless online process has emerged as one of the most successful and largest E-Governance projects of the Indian Government and has benefited all stakeholders. There are little problems whenever new introductions are made but I am sure that this will prove to be a big boon to the Indian Industry. This

project congregates the twin objectives of reduction of both cost as well as paper and time. MCA 21 accomplishes the three 'C's of legislation – cost, compliance and convenience because we don't have to rush around and submit it. You can sit in your office and actually file the E-Governance report. This program has brought about a fine balance between trade facilitation and regulatory enforcement. The efforts of MCA in comprehensively revising and revamping the Companies Act, 1956 to which Mr Arun Maira already referred. I think it is an enormous step which has been taken. I hope this revised, revamped Companies Act 1956 will be introduced in the parliament shortly. Its comply or explain approach will make the act friendlier and easier to comply. The commitment of MCA to promote alternative business models in India has taken the form of introduction of the concept of LLP – Limited liability partnership to which you also referred to earlier. The model imbues the vacuum of other business format and is aligned with the internationally accepted practices. It will provide headway to the entrepreneurial boom, tremendously encourage professional growth and enliven small and medium business through its unique combination of unlimited ownership with limited liability. That is the purpose of this unlimited ownership with limited liability. This is being now introduced by SBN. The efforts of MCA in providing a healthy and competitive environment to the Indian corporate sector has taken form in the new competition law that was recently passed by the both houses of parliament. This is the landmark legislation with a contemporary outlook. Its procedure incentive and is structured in an uncomplicated manner that renders it more flexible and compliance oriented and. I think this is very important from the point of view our taking part in the international arena. This legislation will promote sustenance of competition in the market, protect consumer interest and ensure freedom of trade. Competition and liberalization having fact together unleashed entrepreneurial forces in the economy resulting in the dynamism and boost to the industry. What we are really seeing today is the unleashing of entrepreneurial advantages which Indians possess and makes thus the Indian corporate sector someone to be respected globally.

It is extremely encouraging to note that the twin objectives of corporate governance and investor protector have always formed part of MCA's priority areas. The Ministry's efforts towards Corporate Governance have enabled India to compete with the developed economies with simultaneously focus on creating investor awareness. The Ministry recently observed in the month of

September as the investor awareness month. The resourceful investor education and protection fund IEPF set up by MCA is also aimed at protecting the interests of small investors and spreading awareness regarding related issues. An exclusive IEPF website has been launched by Shri Prem Chand Gupta recently. MCA has also been regularly monitoring action against vanishing companies with a view to punishing the guilty and protecting the interests of the investors. I think this is the most important step particularly in the Indian context how the company's grew, vanishing companies came up and suddenly vanished and the investors were left high and dry. Therefore this legislation is the very important one and through the website and catching hold of these vanishing companies ensuring that the investors are not cheated is being taken up. India has been one of the fastest emerging nations to have aligned itself with the international trends in Corporate Governance. Without this we will not be able to also participate, acquire companies, join with companies or cooperate with them in any manner. The biggest challenge in the Corporate Governance domain now is to sustain the momentum. It is one thing to say that we have started this and we have initiated. But how do we make sure that we sustain this particular corporate governance concept very firmly with the changing environment. CII's focus for 2007-08 is to facilitate orientation of the industry towards adoption of good corporate governance practices for value creation and building corporations of the future. I think this is a very significant step that we are taking to ensure building corporations of the future. CII took a decision that in this year we should be able to have 100 Indian MNCs operating across the globe and I think today if you look at it we have achieved more than 50% of this and I am sure that within the next five months or whatever left in this year we will be able to achieve this target of getting Indian MNCs across the globe. What we have to do is not just be able to have Corporate Governance but to make sure that it gains momentum and sustains and graduate from the conformance to performance. Most of our compliances are today compliance based and we have to move forward and make them performance based. Corporate governance is all about managing corporate responsibility and crisis through fairness, transparency and accountability.

In conclusion the Indian industry during the last few years has indeed been displaying a very high growth levels. I want to avail this platform to acknowledge and highlight MCA's unrivalled contribution to this industry growth and congratulate them for their stupendous efforts and role in

garnering continual support to us in the industry. The forthcoming and upbeat attitude of the ministry has added a new zeal and enthusiasm to the activities of the industry and has revitalized and enlivened it. Industry is now oozing with renewed confidence and moving ahead swiftly. I would like to reiterate the industry's appreciation and gratitude to MCA for its role in transforming Corporate governance essentially is the issue of shared responsibility by all the stakeholders in their respective roles and this gets facilitated by a continual process of interaction, discussion and understanding of what is actually intended in the corporate governance to be achieved.

Thank you
