



A Perspective on
**CORPORATE
GOVERNANCE**

PART OF
MCX-SX FINANCIAL LITERACY SERIES >

Overview

With a GDP of US \$1.25 trillion and Market Capitalisation of US \$1.20 trillion, India is poised to emerge as a significant global economic power. India has over 5,000 listed companies on different bourses. Its capital market practices and regulatory framework are comparable with the best in the world.

The requirement of resources to fuel the double digit growth is so huge that a substantial portion of the money has to be raised from the Capital Market. This calls for a high level of faith among all stake holders which in turn can be achieved only through higher governance standards. It is in this context, MCX Stock Exchange Limited (MCX-SX) is putting forward its viewpoint on Corporate Governance. This will help the readers to set higher governance standards in their realm of operations.

Governance

Governance is not merely about ownership and control. Even an owner has to learn to govern. Good governance is about simplicity in processes combined with checks and balances, clarity of roles, assignment of responsibilities and obligation, all of which would lead to enhanced accountability, wherever it is due.

Corporate Governance

Corporate Governance encompasses commitment to values and to ethical business conduct to maximise shareholder values on a sustainable basis, while ensuring fairness to all stakeholders.

Corporate Governance is a way of life and not a set of rules. A way of life that necessitates taking into account the shareholders' interest in every business decision.

Achieving Corporate Governance



1. Governing Rules

The primary level of Corporate Governance can be achieved by complying with the Corporate Governance requirement prescribed in Clause 49 of the Listing Agreement, which inter-alia provides for the following:

- Board Composition
- Code of Conduct
- Audit Committee
- Subsidiary Companies
- Related Party Transactions
- CEO/CFO Certifications
- Management Discussions and Analysis

2. Information Technology

A major approach taken to achieve this objective is to have in place mechanisms that are targeted to prevent abuse and fraud. These include the duties imposed on directors, the role played by auditors, the establishment of audit committees, and disclosure requirements to name a few. Availability of accurate, relevant and timely information is crucial in establishing and maintaining these mechanisms as well as to ensure their efficacy. Since the availability of information plays such a major role, the increased use of IT in information management has made a considerable impact on the corporate governance and management mechanisms.

- Bringing sustained compliance and knowledge management solutions to the enterprise to manage costs, improve operational capability and maximise the return on investment. To comply with governance regulations, organisations have to:
 - Document objectives, risks and controls for business processes and financial accounts
 - Enhance continuous control monitoring capabilities
 - Manage the content of control repositories and documentation, including change tracking again
- Business Continuity Planning/Disaster Recovery Planning (BCP/DRP)
- Information security and data integrity
- Performance measurement
- Attending Board and Committee Meetings by the directors through Tele-conferencing and Video conferencing, if unable to be present physically
- Facility to shareholders for e-voting

3. Periodic Audits

Periodic Audits for various checks and balances help in bringing constant discipline in the various processes undertaken by the companies.

- Process should be implemented to have continuous periodic audit i.e. quarterly/half yearly audit.
- There should be periodic audit for the following :
 - Internal Control
 - Risk Management
 - Process Audit etc.
- The periodic audit with regards to Internal Control, Risk Management and Process can be conducted by Internal/External auditors
- Reports of Internal/External auditor can be made available to management for their review and follow-up for gap analysis
- For greater investor confidence, Internal audit report may also be made public to appraise with the situation of internal control and its effectiveness in the company

Drivers of Corporate Governance

4. Voluntary adoption of various practices

Corporate Governance adoption should be in-principle on voluntary basis and not because it is forced or a mandatory requirement : A Hybrid Model

- Transformation towards Professional Management vis-à-vis traditional Promoters' Management
- Nomination Committee for Appointment of Directors
- Promoters should restrain themselves in passing important resolution for more transparency
- More empowerment to Independent Directors
- Compulsory rotation of audit firm/audit partners
- Adoption of projects of Corporate Social Responsibility and Environmental Governance
- Enhance integrity and ethical values within the organisation and ecosystem: Self regulated
- Instituting a system of training and evaluation of performance of Board members
- Adoption of whistleblower policy
- Separation of the Offices of the Chairman and CEO
- Signing of Balance Sheet by Independent Directors
- No bias in sharing of current/future corporate performance/information to a specific group of investors: Should be made available to all the shareholders

Corporate Governance drivers

Compliance	Technology
Adhering to governing rules under Clause 49	Usage of IT to identify and manage key risks
Hybrid Model: CG as in-principle adoption and not just for compulsion	Continuous periodic audit
Disclosures	Audits

International Practices

Various Corporate Governance principles and codes have been developed in different countries and issued from stock exchanges, corporations, institutional investors, associations of directors and managers with the support of governments and international organisations. Some of the most popular Corporate Governance codes developed and followed worldwide are:

- OECD Principles of Corporate Governance (2004) - <http://www.nfcgindia.org/oecd2004.htm>
- ASX Corporate Governance Council Report (2003) - <http://www.nfcgindia.org/asxcgcr2003.htm>
- The Combined Code on Corporate Governance (2003 & reviewed in 2009) - <http://www.nfcgindia.org/combinedcode2003.htm> & http://www.ecgi.org/codes/documents/frc_dec2009_en.pdf
- Sarbanes Oxley Act (2002) - <http://www.nfcgindia.org/sarbanes2002.htm>
- Blue Ribbon Report (1999) - <http://www.nfcgindia.org/blueribbon1999.htm>
- CalPERS' Global Governance Principles (1999) - <http://www.nfcgindia.org/calpers1999.htm>
- Hampel Report (1998) - <http://www.nfcgindia.org/hampelreport1998.htm>
- Cadbury Report-The Financial Aspects of CG(1992) -<http://www.nfcgindia.org/cadbury1992.htm>

Further, Ministry of Corporate Affairs (MCA), Government of India has issued Voluntary Guidelines on Corporate Governance in December 2009 to promote good Corporate Governance practices-
http://www.mca.gov.in/Ministry/latestnews/CG_Voluntary_Guidelines_2009_24dec2009.pdf

Role of Exchanges in Corporate Governance

Stock Exchanges have a multi-pronged role to play in upholding and establishing Corporate Governance best practices. As a first level regulator, Exchanges have to implement adequate compliance rules for the companies with respect to provisions on Corporate Governance in the Listing Agreement.

With the evolution of Stock Exchanges as demutualised entities, their contribution in improving the standards of Corporate Governance has become significant. Through participation in developing national codes of Corporate Governance, setting listing and governance requirements consistent with high standards of governance and through monitoring and disclosure of listed companies, Exchanges have been at the forefront of a process of raising standards worldwide. In short, the Exchanges' roles in this regard include:

- Effective monitoring of various disclosures made by companies
- Educational initiatives by Exchanges for companies for better disclosure standards
- Guidance to companies to comply with the requirements
- Prompt disclosures to the investors with regard to non-compliant companies
- Proactive suggestions in improving Corporate Governance standards/code
- Showcasing industry's best Corporate Governance practices, adopted by the listed companies other than regulatory requirement for improving transparency
- Regulatory Actions

Corporate Governance @MCX-SX

MCX Stock Exchange Ltd (MCX-SX), India's new stock exchange, aims to adopt, advocate, practice and provide enabling support environment for its stakeholders to practice statutory and voluntary best practices for best Corporate Governance. The Exchange is fostering a culture of good governance by complying with the norms and regulations laid down by the government and regulators and facilitating effective participation of its various stakeholders for effective running of the business.

MCX-SX has adopted global best practices in its Corporate Governance norms and has set an example by raising the bar of its Corporate Governance standards. MCX-SX has a well-balanced Board and best of the public and private sector institutions as shareholders, ensuring the independence of its functioning. It also has stringent compliance standards for its members to enable them function in accordance to regulatory provisions.

MCX-SX has developed a 'Compliance Manual' to educate its members on the salient features of compliance with relevant regulatory stipulations.

http://www.mcx-sx.com/Downloads/compliance/v6/Compliance_Manual_V_6.pdf

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- through -

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