

**National Foundation For Corporate Governance**  
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Plenary Session III: Corporate Governance- Trends in Disclosure Practices

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It is my pleasure to welcome you all to the post-lunch session on corporate governance. In this session we are supposed to discuss the trends in disclosure practices in corporate governance. We would deliver it on recent trends in corporate disclosure practices and review the role and effectiveness of audit committee, internal control, audit risk management systems and audit processes.

The keynote speaker for this session who is also expected to chair this session, Mr. S. Mahalingam, CFO of TCS, is expected to join us any moment. So as he comes, he will assume his position and also make a presentation subsequently. But till then we would not like to keep you waiting. So we begin this session with myself, T.N. Manoharan and also MR. Rajendra Prasad, President and CFO, SRF Limited, to address on some of the aspects relating to the session's theme.

At the outset, let me congratulate the ministry of corporate affairs for all the initiatives that they have taken and we are taking. They are into competitive globalize scenarios in a more effective manner by offering facilitation to all Indian corporates to compete with the global giants and this incorporation of the National Foundation for Corporate Governance, is another landmark initiative taken which I am sure in the years to come will active its objectives. We must also compliment CII for taking the lead in organizing this symposium which provides a platform for all of us to brainstorm on the recent trends and also the issues associated with the trends that are taking place. Having said that, one issue that emerges is about the implications of these initiatives in terms of developing the best practices in terms of corporate governance and also mandating the corporates to disclosure of such good practices. First and foremost, it cast a burden on the corporates; it also imposes certain additional expenditure on the corporates; and the third one is that if the mandate is to provide all information that is from no information you move to the other extreme of plethora of more information. It is possible that the material information of the vital information may get lost among the host of plethora of information. So, these three points are to be borne in mind in codifying the best practices as corporate governance. So, that is why corporate governance is a must because it has a lot of positive factors but at the same time these three negative aspects which have just been highlighted should also be borne in mind and that is why one has to strike a balance, especially the regulator has to strike a balance, as to how to achieve the best practices being codified as corporate governance.

We welcome Mr. Mahalingam and I continue further. Friends, gone are the days when commercial transactions were taking place involving one nation or, at the most, two nations even in exporting goods.

Only two nations were involved. But now we are living in a scenario that the company is in India, the goods are in Singapore and the customer is in Australia, and the smart server which is processing the order is posted in Hong Kong, and the Internet service provider is in Dubai, and these companies' shares are listed in NASDAQ or in European stock exchanges and therefore, ten countries are connected to this commercial transaction. There are about ten companies that are connected to the commercial transactions. Therefore, in that context, one has to see. So it is not the question of codifying the group practices, relevant practices but you will have to also enter into a globalised competitive scenario and see how we can be adapting but at the same time ensure it is appealing to domestic environment. So in that context, these practices are being codified.

Two decades ago, one of my friend toured Europe, came back and I asked him, can you narrate your experience, how it works having seen few countries. He said, in England everything is permitted except those which are prohibited. In Germany, everything is prohibited except those that are permitted. In Russia, everything is prohibited including those that are permitted—that was the scenario then. In Italy, everything is permitted including those that are prohibited. These are the cultural values and practices that deferred those days but today the countries have realized, the economies have realised, that cannot be distinct as separate from other economies. One thing we have experienced in the past or at least to my limited knowledge that all the developed experience, I can say, countries why they could make so much progress because they are not individual-driven but they are systems-driven. The systems, procedures, controls are no doubt supplemented by individual's wisdom, vision and experience but it is not the other way about. In India, it was always individual-driven; it mattered as to who is at the helm of affairs, who is controlling, who is taking decisions. But from there, we are progressing to a scenario where there will be good days, mechanism in place, controls in place, systems in place which will be supplemented by the individual's vision and wisdom. And somebody may ask and it was also mentioned that independence itself is difficult to defend because it is a state of mind. Similarly, it is not the number that matters as to how many independent directors are mandatorily required but it is the perspective, the approach, the attitude that matters ultimately. Nevertheless, in an examination, we all know copying is prohibited. This is unethical, this is illegal, this is not permitted but we don't depend on the mindset of students. We bring in some regulatory mechanism like the distance between one candidate to another candidate. The sitting arrangements, the invigilator who oversees all these things are inevitable because whole morality cannot be legislated; conduct needs to be regulated. We cannot achieve the desired level of ethical compliments or value system by monitoring the conduct which leads to that ideal scenario, that is precisely the objective approach. This corporate governance is getting codified as the best of the practices. As Mahatma Gandhi said, that the earth provides enough for everybody's need but not for everyone's greed. So that is always there in some section of the society to have more and more and that is where these practices have been codified, monitored and implemented and will have the value addition for the majority of others who just want return of their investment in the normal course.

Ladies and gentlemen, you will also agree with me that another phenomena, another paradigm shift in olden days maybe that among generalized majority of the corporates were concerned about tangibles. They are concerned about tangibles, what I mean to say is that they are concerned more about their turnovers, more about the net worth, they were talking about market capitalization. They were interested

in knowing about their earnings per share, the asset base, so on and so forth. But today, the emphasis has been shifted or shifting to intangibles, like corporate social responsibility, goodwill brand image building, customer satisfaction, and human resource development. These are all intangibles and most of these intangibles or at least some of these crucial intangibles are not captured in the balance sheet, not captured in the financial statements. That is why even as apart of corporate governance financial disclosure is one segment; non- financial information disclosure is another segment. Infact, UNCTAD has done a research study by involving corporates of many countries and have identified disclosure yardstick, starting right from the financial and operational result disclosure; given the environmental aspect related disclosures and they have found out that while financial reporting disclosure are 100 percent compliance is there, as you go down non-financial information disclosure, the percentage of voluntary compliance, is not so satisfactory in some of the countries.

Now coming to the specifics audit committee is one of the aspects meant for the session, audit committee fortunately no longer seen as a statutory committee, as a committee which is complied by the legislature. Now, every corporate is desirous of having a quality audit committee because the value addition generated by an audit committee seems to so beneficial for enhancing the value for share holders or stake holders. Infact, corporates will be more than willing to comply all the requirements of the corporate governance if the cost of the additional expenditure incurred as a direct relationship with the benefits that accrue an account of incurring this expenditure and many of those studies that have been carried out by different forums in different parts of the globe have proved one thing that there is a positive relationship between these two , may be the degree can vary and that is why India is not aggressively progressing , for example, when comes to external auditor , there are some countries where there must be mandatory rotation of auditors of the company. Where as, in India, we have adopted it straightway what Naresh Chandra Committee recommendation is that the knowledge of business for the external auditor is very important and you may defeat this if you periodically rotate the auditor, where as the recommendation is to rotate the audit partner within the audit farm, so like that we are also conscious of the environment that is prevalent in India and accordingly adopting the global best practices. Then because of the various committees that are been constituted by the board, the role and responsibility of the auditor also increasing over a period of time. Infact audit committee these days exercise over sight, were both internal and external audit in an effective manner and that the next one is internal control that is going to generate lot of valuable information in terms of decision making and all these things if they are disclosed. What is the benefit the investor is going to get is, ladies and gentlemen you agree with me when I say that informed investor is a protected investor, so therefore if material information, if appropriate information is readily available to the investor, and after understanding that disclosure, an investor is taking a decision is bound to be a better one than what he would have done in the absence of such a disclosure. The internal control mechanism also encompasses the whistle blower policy and also safeguards against the victimization of those who report in terms of whistle blower policy. The last aspect is risk assessment and management. When it comes to risk assessment and management, the disclosure go to the extend of defining the long term strategy of the management in terms of risk assessment and management, the availability of resources in-house for evaluation of the risks and the strategies to be adopted, experts have to be engaged by the company in this context , so this particular aspect which is very crucial infact, robust system not only for internal control but also for risk assessment and management is inevitable for successful functioning of a

company and all these things it is not only enough , they are instituted ,installed or made to exist. But they should also be demonstrated or it should also be proved that they are functioning right through the organization and therefore documentation assumes its own significance. So, that is one aspect which is to be addressed as part of the recent of the significance of documentation in all those aspects. Because controls can be of threefold – one is on operations, other one is financial reporting and the third one is compliance. Now the compliance angle, when it comes to best practices, the compliance should not only be synchronized in the context of the accounting standards that are applicable, even beyond that. That is why we say financial, non financial information. So therefore, it is not the gap alone that should mandate some of the disclosures but even beyond the gap, so as the disclosure also matters.

I have mentioned about accounting standards. Globally, even among Fortune 500 companies, initial impression was that the number of companies who are US Gap compliant were more than IFRS compliant. Now gradually, if you see, over 200 companies are IFRS compliant, about 170 companies are US Gap companies, so on and so forth. Which means that international reporting standards are gaining more and more acceptability across the globe The UNCTAD, the UN, in the list of nation, about 102 nation have indicated that they are IFRS compliant at different points of time like in 2005 some countries including the European Union, Australia, New Zealand, so on and so forth and some of the countries are falling in line over a period of time. When it comes to Indian scenario-the scenario is such that there is a Task Force which is working on how to convert Indian accounting standards with the International Financing Reporting Standards .fortunately for us the differences between Indian accounting standards and IFRS and not phenomenal they are minimal and those minimal differences are also on account of the legal system that are prevalent here and a few other aspects. So ironing these differences and converging may not be a difficult process but it is bound to happen over a period of time.

So having said all these ,you will all agree that India has reached the stage where nobody can stop it from emerging as a developed economy in the future and we say India is incredible India-not just India, because of the very many factors-which are unique to India. And in this incredible India what we can do in the scenario where international investment are flowing into India and the forex reserve has crossed two hundred billion and FDI investment in the last seven months during 2007 has crossed any other earlier years investments and the globe itself is looking at India as a safe destination for international investment and Indian corporates are taking over business abroad, establishing subsidiaries abroad. In this scenario the best thing that can happen is through corporate governance model if we can build a credible economy that would be the idle thing to achieve and accomplish.

Let me conclude by saying that 18th and 19th Century belonged to Europe, 20th Century belonged to US and 21st Century must belong to India. And this can be accomplished not only by government but by corporates professionals all joining hands. Let us hope it would be a reality.

Thank You Very Much.