

# INSTITUTE OF ENGINEERING & TECHNOLOGY,

## ALWAR (RAJ.)



*Presents*  
*National*  
**WORKSHOP**  
*On*

**NFCG** *National Foundation for  
Corporate Governance*

# **GOOD GOVERNANCE & CORPORATE GOVERNANCE**

*First time in Rajasthan*

Monday, 7<sup>th</sup> - Friday, 11<sup>th</sup> March, 2011 (9.00AM-  
Itinerary

- Day-1: Corporate Governance: an educational outlook.
- Day-2: Good Governance for sustainable Development.
- Day-3: Investor Protection/ education
- Day-4: Good Governance impact for better human life & rights.
- Day-5: Global corporate governance.

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**DAY 1**

**CORPORATE GOVERNANCE: AN EDUCATIONAL  
OUTLOOK**

# What is Corporate Governance?

## Corporate Governance

**"Corporate Governance is the system by which local authorities direct and control their functions and relate to their communities".**

In other words, corporate governance is the way in which organizations manage their business, determine strategy and objectives and go about achieving those objectives. This reminds local authorities of their role in leading communities.

Reading Borough Council recognizes that effective local government relies upon establishing and maintaining the public's confidence in both elected members and officers, and that this underpins the credibility and confidence in the services we provide.

### **The three key principles of corporate governance are:**

#### **Openness**

Openness is required to ensure that the public can have confidence in the decision-making and management processes of Reading Borough Council, and in the approach of its members and staff. Being open, through genuine consultation with the public and providing access to full, accurate and clear information, leads to effective and timely action and lends itself to necessary scrutiny. Openness also requires an inclusive approach, which seeks to ensure that all members of the public have the opportunity to engage effectively with the decision-making processes and actions of the council.

#### **Integrity**

Integrity is based upon honesty, selflessness and objectivity. Reading Borough Council expects the highest standards of accountability and control over the management of its systems, administration and finance(s). Integrity is dependent upon the effectiveness of the control framework and on the personal standards and professionalism of the members and staff within the Council. It is reflected in the Council's decision-making procedures, in its service delivery and in the quality of its financial and performance reporting.

#### **Accountability**

Accountability is the process whereby the Council, and its members and staff, take responsibility for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external review. It is achieved by all parties having a clear understanding of those responsibilities and having clearly defined roles. This can only come about through a robust corporate governance structure.

The concept of leadership overarches the three principles outlined above. These can only be achieved if effective leadership is demonstrated through:

- Reading Borough Council providing a vision for its community and leading by example in its decision-making and other processes and actions.
- Members and managers conducting themselves in accordance with high standards of conduct

## Framework of Governance

1. Supervisory Board/ Committee/ Team
2. Audit Committee
3. Internal Audit
4. Statutory Audit
5. Disclosure of information
6. Risk management framework
7. Internal Control framework
8. Whistle blower policy

## Corporate Governance & Corporate Management

CORPORATE GOVERNANCE	CORPORATE MANAGEMENT
External Focus	Internal Focus
Governance assumes an open system	Management assumes a closed system
Strategy- oriented	Task-oriented
Concerned with where the company is going	Concerned with getting the company there

## History of Corporate Governance

- Kautilya's (Chanakya) Arthashastra is the oldest book (around 300 B.C) on Management available to the world
- This masterpiece covered a wide range of topics and also recommended that
  - the king shall not consult with any advisor who had a vested interest in the outcome of a particular project.
  - establishment of an *ethical code of conduct*—a topic which has received a great deal of attention now during the past few years after corporate scandals

- the *codification of accounting rules* into one uniform system to prevent problems in translating financial data between disparate methods of accounting – a subject which the international accounting community is dealing with in terms of the convergence of accounting standards.
- In the western world The East India Company introduced a Court of Directors, separating ownership and control (U.K., the Netherlands) in 1600s

## **Some Governance Models**

- Finance or the Principal-Agent Model
  - Markets for Capital, Managerial Talent and Corporate Control, Key determinant
  - In general, profit-maximization goal is co-functional with social-welfare-maximization
  - Shareholders as Residual Claimants have superior control rights
- Risk-bearing Entrepreneurs
- Residual Claimants
- Winding-up Ranking: Last in Pecking Order
- Boards Appointed by Shareholders
- Non-congruence of Stakeholder Interests
- Exclusive Accountability to Shareholders

## **Objectives of good corporate governance**

1. Strengthen management oversight functions and accountability
2. Balance skills, experience and independence on the board appropriate to the nature and extent of company operations
3. Establish a code to ensure integrity
4. Safeguard the integrity of company reporting
5. Risk management and internal control
6. Disclosure of all relevant and material matters
7. Recognition and preservation of needs of shareholders

## **Parties to corporate governance**

1. Board of directors
2. Managers
3. Workers
4. Shareholders or owners
5. Regulators
6. Customers
7. Suppliers
8. Community (people affected by the actions of the organization)

## **Clause 49 in Listing agreement**

- The Listing agreement was first introduced by Bombay Stock Exchange and later followed by other stock exchanges
- SEBI, vide its circular dated February 21, 2000, specified principles of corporate governance and introduced a new clause 49 in the Listing agreement of the Stock Exchanges.
- The Listing agreement contains 51 clauses
- Listing means admission of the securities to dealings on a recognized stock exchange. The securities may be of any public limited company, Central or State Government, quasi governmental and other financial institutions/corporations, municipalities, etc.
- Listing helps in free transferability, leads to transparency in disclosure of information and ensures official quotation is available.

## **Applicability of clause 49**

- All listed entities having a paid up share capital of Rs 3 crores and above or net worth of Rs 25 crores or more at any time in the history of the company
- For other listed entities which are not companies, but body corporate (e.g. private and public sector banks, financial institutions, insurance companies etc.) incorporated under other statutes, the revised Clause 49 will apply to the extent that it does not violate their respective statutes and guidelines or directives issued by the relevant regulatory authorities.
- The revised Clause 49 is not applicable to Mutual Funds
- Revised clause 49 has come into effect from January 1, 2006

**DAY 2**

**GOOD GOVERNANCE FOR SUSTAINABLE  
DEVELOPMENT**

## Introduction

- ❖ Corporate governance is a major concern in the Asia and Pacific region, especially in the aftermath of the 1997 Asian financial crisis. The size and frequency of recent corporate governance debacles show that poor governance is not only a formidable hurdle to surmount but is also at the forefront of economic development issues. A dilemma has arisen from recent experience: it is possible for companies to appear to comply with the requisite corporate governance rules without complying with the principles and spirit of good governance.
- ❖ Accordingly, it will be helpful to investors, the media, and other stakeholders to be armed with the corporate governance analytical principles, skills, and tools that will enable them to distinguish between companies that comply superficially or cosmetically, and those which have a genuine commitment. Enterprises will increasingly discover that traditional financial criteria will be insufficient to attract investors and will need to demonstrate conduct consistent with the principles of good corporate governance.
- ❖ Enterprises in Asia and the Pacific that genuinely embrace, adopt, and adhere to the principles could derive a multitude of benefits such as the availability and lower cost of capital, the ability to attract top talent and business partners, greater competitiveness, better financial performance and more transparency, and a more favorable impact on employment and the environment.
- ❖ Corporate governance usually refers to the conduct of the board of directors. Recent events in the Asia and Pacific region and revelations elsewhere have shown that the practice of high quality corporate governance is indispensable for building investor confidence and for sustained growth. Enterprises that strive for governance excellence will gain a long-term advantage. A review by Colin Melvin, Director, Corporate Governance, Hermes Pensions Management Ltd., of the evidence for a link between corporate governance and investment performance shows that a key driver of corporate performance is investor activism. McKinsey & Co. found that, other things being equal, investors reward well governed companies by paying a premium for their shares.
- ❖ The Asian Development Bank (ADB) has taken a wide range of steps to improve corporate governance in the region. ADB's aims include the promotion of corporate enterprises and financial institutions in its developing member countries to help accelerate economic growth and prosperity. ADB has invested in over 100 private sector enterprises and financial institutions in the Asia and Pacific region over the last 2 decades and has co invested with governance-conscious institutional investors. This experience has provided ADB with a close look at actual governance practices in its investee enterprises that vary from the advanced to the rudimentary. The lessons gleaned from this experience have helped shape a set of corporate governance principles that have been crafted and tailored to the conditions of the region.

- ❖ Ten core principles have been listed. An attempt has been made to model the principles in a manner consistent with global best practice. All the principles are interrelated and tied by the common threads of a performance orientation within the bounds of acceptable conduct. Good corporate governance requires an overriding commitment to a culture of governance that permeates all aspects of board and management conduct. The example and tone need to be set at the top to embed good corporate governance in an organization's culture.
- ❖ This condenses the principal attributes of good corporate governance. Each principle addresses a particular facet of corporate governance. These relate to key board committees, the conduct of board members and others, the environment, the role of directors in turnaround situations, and the responsibilities of investors in influencing corporate governance. The principles recognize that effective corporate governance requires the partnership of the board with shareholders and management as well as the interface with an array of stakeholders such as employees, the media, creditors, and suppliers. Accordingly, some principles also encompass the conduct of shareholders and management and the management of the relationship with other entities that have a stake in the success of an enterprise.
- ❖ Each principle is accompanied by a commentary describing tips and guidelines helpful to directors and others who aspire to implement the principles. Detailed guidance on concepts and models can be accessed by referring to the extensive set of references listed at the end.
- ❖ ADB expects to work with those institutional investors and private enterprises that share these beliefs and principles. From the vantage point of institutional investors, good corporate governance is a key risk management tool that helps preserve and grow capital in ways compatible with their values. The winners in the Asia and Pacific private sector will be set apart by the practice of high-quality corporate governance as a competitive weapon. A key tenet of good corporate governance is that companies be run in the long-term interest of shareholders. Companies adhering to this principle will not only benefit their shareholders, but also the wider economy.

## **Objectives**

The objectives of the principles are to assist

- (i) Enterprises design and implement their own corporate governance guidelines by benchmarking their practices against these principles;
- (ii) Domestic and institutional investors, fund managers, as well as ADB, in their quest for excellence in corporate governance in investee enterprises; and
- (iii) Governments in designing corporate governance regulations.

# **Principles of Corporate Governance for Sustainability Development**

## **Principle 1: Performance Orientation**

The principal objective of business enterprises is to enhance economic value for all shareholders by making the most efficient use of resources. A company that meets this shareholder value creation objective will have greater internally generated resources, improving its prospects for meeting its environmental, community, and social obligations; pay taxes; reward, train, and retain key staff; and enhance employee satisfaction. A key focus area is a company's human capital strategy, which is a lead indicator of corporate success.

## **Principle 2: Nomination and Compensation Committees**

A key success factor is the quality of leadership of an enterprise. A nomination committee with a written mandate and terms of reference consistent with good practice may ensure the selection of directors and a chief executive officer (CEO) of the highest caliber. Comprising mainly of independent directors, the committee should have a written definition of independence, inclusive of both subjective and objective criteria. A compensation committee should set the compensation policy for directors and senior management, commensurate with performance measured against comparable industry benchmarks and key performance indicators such as economic value added.

## **Principle 3: Disclosure**

To ensure transparency, companies' annual reports should disclose true and fair accounting information prepared in accordance with applicable standards; consider substance over form in the presentation of accounts; disclose and discuss all material risks; disclose and explain the rationale for all material estimates; show manner of compliance, or explain deviations, if any, with applicable corporate governance codes; discuss goals, plans, and progress; and provide access to the register of shareholders showing beneficial ownership. In addition to annual disclosures, enterprises should comply with applicable continuous disclosure requirements. Disclosures should be timely and adequate to enable investors, third party analysts, or rating agencies to assess the quality of corporate governance and the true financial condition of the enterprise.

## **Principle 4: Audit Committee**

Audit committees with the following attributes are more effective: composed solely of independent directors, at least two of whom should have the requisite knowledge of accountancy, financial analysis, and financial reporting; at least one member should have a good understanding of the business of the enterprise; have a written mandate and terms of reference; engage only independent external auditors who should be answerable to the committee; and require that a suitable system of internal control and risk management is embedded into the fabric of the company; and focus on the substance of underlying transactions.

## **Principle 5: Code of Conduct**

All enterprises must have a written code of business conduct and establish systems to ensure that it and all applicable laws are followed in letter and spirit.

### **Principle 6: Conflicts of Interest**

Directors owe a fiduciary duty to the company that requires them to act in the best interest of the company. Actual and potential conflicts of interest should be identified, disclosed, and explained in sufficient detail to enable valid judgments to be made on their adverse impact. The persons who are conflicted should not participate in discussion and decision of the issue in question, nor be entitled to vote on any resolution where they are conflicted. Related party contracts should be disclosed in the annual report.

### **Principle 7: Environmental and Social Commitment**

There is an inextricable relationship among the objectives of corporate performance, social development, and environmental protection. Enterprises, to be sustainable, will need to recognize and effectively deal with this triad of concerns, which, at times, may conflict with each other.

### **Principle 8: Conduct of the Board of Directors**

Directors are expected to preserve and enhance shareholder value. Their effectiveness can be enhanced if they are legally empowered, have the requisite qualifications for the board committees on which they sit, make the needed time commitment, given the appropriate directorship training, are suitably compensated, receive proper notice of meetings, have the right to propose agenda items, consult each other privately in the absence of management and executive directors, and provided with appropriate information to enable them to perform their monitoring role and evaluate the performance of directors. They should be proactive and diligent.

### **Principle 9: Responsibilities of Investors**

The pursuit of good corporate governance in investee enterprises is a risk management tool. Institutional investors, general partners, and fund managers have a fiduciary duty to actively monitor and vote on issues vital to the success of enterprises in which they invest as guardians of the savings entrusted to them. Enterprises will find it helpful to communicate with them, deliver in a timely manner true and fair disclosure reports, and remove impediments from voting by all shareholders by taking advantage of modern communications and follow a one-vote for one-share policy. The fair treatment of minority shareholders must be ensured and large institutional investors should lead the pursuit of shareholder rights.

### **Principle 10: The Role of Directors in Turnaround Situations**

Directors of troubled companies must play a proactive role in turnaround situations, but avoid preferential treatment of creditors, or trade when the company is insolvent.

## **Sustainable development**

### **SOME DEFINITIONS :**

- “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

**Brundtland Report (1987) ‘Our Common Future’**

- Sustainable Development (SD) implies economic growth together with the protection of environmental quality, each reinforcing the other. Sustainable Development, thus, is maintaining a balance between the human needs to improve lifestyles and feeling of well-being on one hand, and preserving natural resources and ecosystems, on which we and future generations depend.
- “To improve the quality of life while living within the carrying capacity of ecosystems”.

**IUCN (The World Conservation Union), 1991**

Thus, Sustainable development does not focus solely on environmental issues. More broadly, it encompasses the three general policy areas namely economy, environment and society.

## **Main Features of Sustainable Development**

- ❖ A desirable human condition: a society that people want to sustain because it meets their needs.
- ❖ An enduring ecosystem condition: an ecosystem that maintains its capacity to support human life and others.
- ❖ A balance between present and future generations; and within the present generation.

## **Sustainable Growth**

For growth we need resources and the rate of depletion of resources cannot be matched with the regenerating capacity of earth, as it is finite, not-growing and materially closed. Therefore, Sustainable growth is an impossible theorem!

## **Sustainable Consumption**

Sustainable consumption is related to production and distribution, use and disposal of products and services and provides the means to rethink our lifecycle. The aim is to ensure that the basic needs of the entire global community are met, excess is reduced and environmental damage is avoided.

## **Sustainability**

Sustainability is the action oriented variant of Sustainable Development. There are some principles of sustainability which include the following-

- Protecting Nature
- Thinking long-term
- Understanding systems within which we live
- Recognizing limits
- Practicing fairness
- Embracing creativity

## **Balancing Economic Integration and Social Governance:**

*“Sustainability Model: Social Investment Does Make Economic Sense” Social Investments: Sustainable Development Model*

The Sustainable Development Model takes into account social, environmental and economic measures in the business model

*Suggested Definition of SD*

*(source: Int’l Institute for SD, publication 1992)*

“For the business enterprise, sustainable development means adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future.”

## **Triple Bottom Line**

- ☺ ***ECONOMIC – shareholders/stakeholders***
- ☺ ***SOCIAL – stakeholders***
- ☺ ***ENVIRONMENTAL - stakeholders***

## **Global Trends:**

- ❖ International and regional initiatives:
- ❖ Millennium development goal
- ❖ Aced initiative
- ❖ Un global compact
- ❖ Global reporting initiative
- ❖ Market initiatives: syariah business trend
- ❖ Demand side: sustainable responsible investors
- ❖ Mohammad yunus: empowering the poor
- ❖ Human rights
- ❖ Labor standards
- ❖ Environment
- ❖ Anti-corruption

## **Challenges to Global Trend**

- ❖ Mindset change
- ❖ How to operationalize Initiatives
- ❖ New Emerging Market Forces (China, India) want to catch up on fruits of development using old models
- ❖ Sustainable Development Models not fully ‘mainstream’
- ❖ Weak Demand Side (consumers need to be more aware and demand more affirmative action)

## **SD Success Factor**

If sustainable development is to achieve its potential, it must be integrated into the planning and measurement systems (of governments and business enterprises)

## **Models Of Sustainable Development**

### **❖ Three Pillar Basic Model**

This is one of the most well-known models created using the three dimensions - Economy, Environment and Society. It has three interlocking circles with the triangle of environmental (conservation), economic (growth), and social (equity) dimensions. Sustainable Development is modeled on these three pillars. This model is called 'three pillars' or 'three circles model'. It is based considering the society, but does not explicitly take into account 'human quality of life'.

### **❖ The 'Egg of Sustainability' model**

It was designed in 1994 by the International Union for the Conservation of Nature, IUCN. It illustrates the relationship between people and ecosystem as one circle inside another, like the yolk of an egg. This implies that people are within the ecosystem, and that ultimately one is entirely dependent upon the other. Just as an egg is good only if both the white and yolk are good, so a society is well and sustainable only if both, people and the eco-system, are well. Thus according to this model:  
Sustainable development = human well-being + ecosystem well-being

### **❖ Atkinson's Pyramid Model**

The Atkinson Pyramid process supports and accelerates the progress from identifying the vision of sustainability, through analysis and brainstorming and agreements on a credible plan of action. The Atkinson's Pyramid is a blue print for the SD process. Its five steps or levels include:

- Level 1: Indicators- Measuring the trend
- Level 2: Systems- Making the connections
- Level 3: Innovations- Ideas that Make a Difference
- Level 4: Strategies: From Idea to Reality
- Level 5: Agreements: From Workshop to Real World

### **❖ Prism of Sustainability**

This model was developed by the German Wuppertal Institute and defines SD with the help of four components - economy, environment, society and institution. In this model the inter-linkages such as care, access, democracy and eco-efficiency need to be looked at closely as they show the relation between the dimensions which could translate and influence policy. In each dimension of the prism, there are imperatives. Indicators are used to measure how far one has actually come in comparison to the overall vision of SD.

### ❖ **The Amoeba Model**

The Amoeba Approach is a model used to visually assess a system's condition relative to an optimal condition. "The Amoeba Model" is a powerful technique for accelerating the innovation process and training to be far more effective in achieving SD.

## **Indicators Of Sustainable Development**

- ❖ Gross National Happiness (GNH)
- ❖ Human Development Index (HDI)
- ❖ Ecological Footprint (EF)
- ❖ The Happy Planet Index (HPI)
- ❖ Gross National Happiness (GNH)

### **Gross National Happiness (GNH)**

It is an attempt to define quality of life in a more holistic and psychological terms than Gross National Product. GNH is based on the assertion that true development of human society takes place when material and spiritual development occur side by side to complement and reinforce each other. Four pillars of GNH

- The promotion of equitable and sustainable socio-economic development,
- Preservation and promotion of cultural values,
- Conservation of the natural environment,
- Establishment of good governance.

### **Human Development Index (HDI)**

The Human Development Index (HDI) is the measure of life expectancy, literacy, education, and standard of living for countries worldwide.

Three basic dimensions of human development:

- A long and healthy life, as measured by life expectancy at birth.
- Knowledge,
- A decent standard of living

### **Ecological Footprint (EF)**

Ecological Footprint (EF) compares human consumption of natural resources with Earth's ecological capacity to regenerate them.

### **The Happy Planet Index (HPI)**

The Happy Planet Index (HPI) is an index of human well-being and environmental impact. The index challenges other well-established indices such as Gross Domestic Product (GDP) and the Human Development Index (HDI).

## **Measures for Sustainable Development**

- ❖ Using appropriate Technology
- ❖ Reduce, Recycle and Reuse Approach
- ❖ Promoting environmental awareness approach
- ❖ Resource utilization as per carrying capacity
- ❖ Improving quality of life including social, cultural and economic.

## **Conclusion**

- Economic Integration and Social Governance through the Sustainable Development Model
- Change Mindset about the “Poor”
- Establish SD Model and replace old school model entirely by way of effective adoption of global initiatives at operational level
- Sustainable Development Model must be adopted by Governments and the Corporate Sector

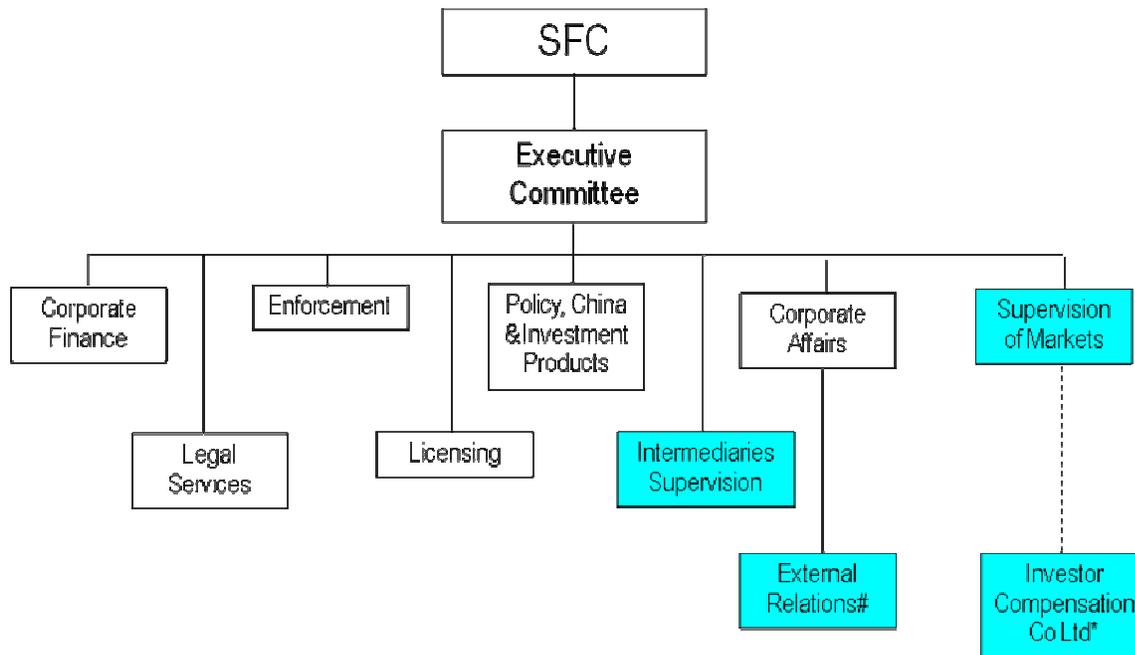
**DAY 3**

**INVESTOR PROTECTION/EDUCATION**

## Regulatory Objectives

- ❖ Keeping the securities and futures industry fair, efficient, competitive, transparent and orderly
- ❖ Helping the public understand how the industry operates
- ❖ Protecting the investing public
- ❖ Minimizing crime and misconduct in the markets
- ❖ Reducing systemic risks in the industry
- ❖ Helping the Financial Secretary maintain financial stability in Hong Kong

## Organisation Chart of the Securities & Futures Commission



## **Intermediaries Supervision Division**

Monitor and supervise financial viability and conduct of licensed intermediaries

### **Legislations and Rules to protect brokers' financial position and client assets**

- ❖ Major legislation, rules, codes and guidelines for the protection of financial position of brokers and client assets include:
  - Securities and Futures Ordinance;
  - Financial Resources Rules;
  - Client Money Rules;
  - Client Securities Rules;
  - Code of Conduct; and
  - Management, Supervision and Internal Control Guidelines

### **Supervisory Tools**

- ❖ Onsite inspection to detect brokers' non-compliance with regulations and financial position
- ❖ Meetings with senior management of the broker to understand the firm's recent developments and risk profile
- ❖ Ongoing offsite monitoring of brokers' financial risks

### **Financial Data Analysis**

Based on data obtained from monthly financial returns, analyse the financial data

- ❖ Risky brokers are identified for monitoring / targeted for inspection
- ❖ Pointers to signs of
  - Higher financial risk
  - Potential misuse of clients' securities
  -

### **Notification obligation of securities brokers**

Brokers are obliged to notify SFC if they encounter financial problems. For example:

- ❖ Liquid capital deficiency
- ❖ Unable to meet margin call / demand of repayment for 3 consecutive business days Bank loan exceeds the credit limits granted

## **Focus of Our Investor Education Work**

*Keep investors educated*

- ❖ Help investors understand the markets, different financial products
- ❖ Explain investment risks
- ❖ Encourage investors to ask the right questions, read the relevant documents to make informed choices
- ❖ Promulgate proper investment attitude
- ❖ Explain SFC's functions

Conduct regular investor surveys to direct our educational efforts

## **SFC's Fundamental Approach of Investor Education**

- ❖ Free investor brochures and leaflets
- ❖ Articles in newspapers and magazines
- ❖ TV and radio commercials and print ads
- ❖ Documentary - dramas on TV and public buses
- ❖ Financial programmes on TV, radio
- ❖ Text information on our investor education portal, the Invested website ([www.InvestEd.hk](http://www.InvestEd.hk))
- ❖ Regular presentations to the community
- ❖ Train-the-trainer workshops for teachers
  - Seminars and case studies
- ❖ School and universities talks
- ❖ Handle investor enquiries and complaints on misconduct
  - Submit cases to Complaints Control Committee and relevant divisions/ departments for follow up

## **Background of Investor Compensation Fund**

A new single and unified replaced the

- ❖ Unified Exchange Compensation Fund
- ❖ Commodity Exchange Compensation Fund

Investor Compensation Fund established on 1 April 2003.

## **Coverage of Investor Compensation Fund**

- ❖ Licensed persons authorized to deal in securities and futures contracts irrespective of whether they are exchange participants of HKEx provided that the trades relate to HKEx products
- ❖ Authorized institutions trading in HKEx products

- ❖ Licensed persons authorized to provide securities margin financing in relation to HKEx products

## **Understanding Investors and Marketing in the Financial Services Sector**

- ❖ It dwells on the intricacies of financial marketing, apart from the traditional four Ps of marketing.
- ❖ It discusses the use of software tools in the decision-making and marketing of financial services.
- ❖ It also includes a case pertaining to investment decisions.

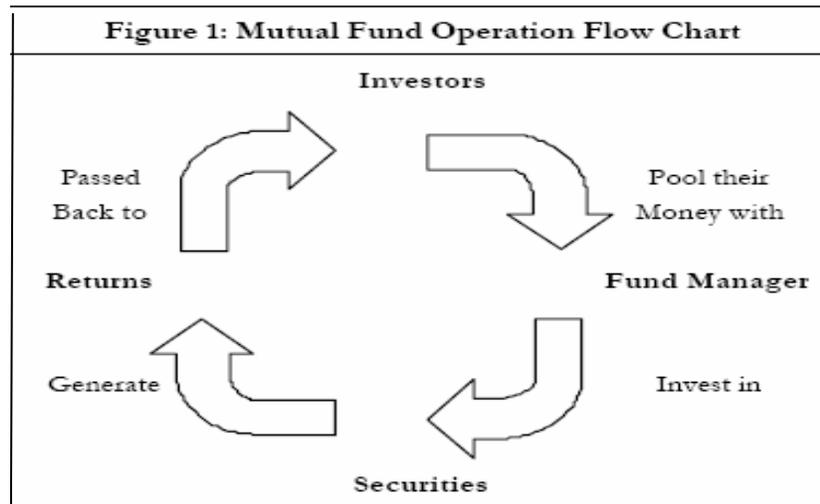
## **The 5 Ps of the classic marketing mix**

- ❖ Physical Evidence (addressing intangibility)
- ❖ People (addressing people service)
- ❖ Process (addressing process related issues)
- ❖ Punctuality (indicates timing in all five flavors of availability, punctuality, duration, speed of response and speed of innovation)
- ❖ Performance Management (to ensure that customers do not suffer at peak times and that the firm does not bleed too much when demand is slack.)

## **Benefits of investing**

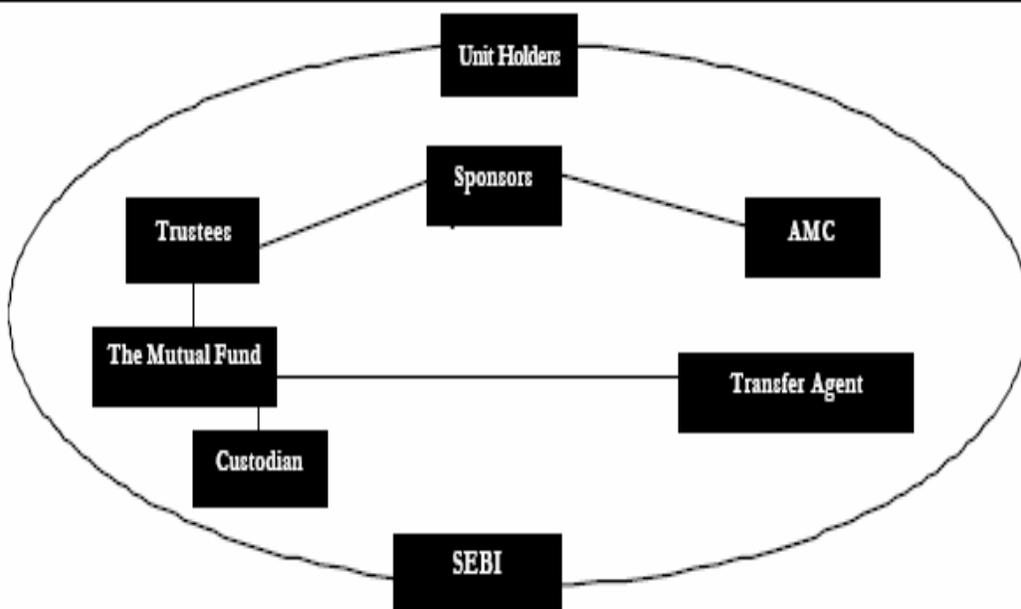
- ❖ Proper risk – return trade-off (maximization of return and minimization of risk)
- ❖ Positive impact of taxation.
- ❖ Identifying and specifying an investor's objectives, preferences and constraints to develop clear investment policies.
- ❖ Developing strategies by choosing optimal combinations of financial and real assets available in the market and implementing the strategies.
- ❖ Monitoring the market conditions, relative asset values and the investor's circumstances.
- ❖ Making adjustments in the portfolio to reflect significant changes in one or more relevant variables.

## The Indian Economic Scenario for Financial Services



## Concept of a mutual Fund

Figure 2: Organization of a Mutual Fund



## **Steps to be followed by Marketing Personnel**

**i) Explaining the Benefits of Investment in Mutual Fund**

- Professional Management
- Potential Return
- Diversification
- Liquidity
- Low-Cost
- Transparency
- Flexibility
- Affordability
- Well Regulated

**ii) Identification of Risk Associated with Mutual Fund**

- Market Risk
- Credit Risk
- Interest Rate Risk
- Inflation Risk
- Political Environment

**iii) Selecting a Mutual Fund**

- **Schemes according to maturity period**
  - Open-ended fund/schemes
  - Close-ended fund/schemes
- Schemes according to investment objective
  - Growth/equity oriented schemes
  - Income/debt oriented schemes
  - Balanced fund
  - Money market or liquid fund
  - Gilt fund
  - Index funds.

## ➤ **Schemes according to Maturity Period**

- Open-ended Fund/Scheme
- Close-ended Fund/Scheme
- Schemes According to Investment Objectives
- Growth/Equity Oriented Scheme
- Income/Debt Oriented Scheme
- Balanced Fund
- Money Market or Liquid Fund
- Gilt Fund
- Index Fund

### **Four inherent risks are:**

- ❖ Credit Risk
- ❖ Market Risk
- ❖ Legal Risk
- ❖ Operation Risk

### **Definition of “Default”**

“Default” in relation to a specified person or an associated person of the specified person, means

- (a) The insolvency, bankruptcy or winding up of the specified person; or
- (b) Any breach of trust, defalcation, fraud or misfeasance committed by the specified person or associated person of the specified person.

### **Funding**

- ✓ The remaining balance of the Unified Exchange Compensation Fund and Commodity Exchange Compensation Fund transferred to the Investor Compensation Fund
- ✓ Investor Compensation Levy
- ✓ Insurance
- ✓ Size – about HK\$1.84 billion

## **Securities & Futures (Investor Compensation – Levy) Rules**

- ❖ Levy for a sale and purchase of securities: 0.002%; or
- ❖ Levy for a sale and purchase of futures contract: HK\$0.50 (HK\$0.10 for Mini-Hang Seng Index Futures, Mini-Hang Seng Enterprises Index Futures and Stock Futures Contracts)
- ❖ All Designated Market Makers of the SEHK are exempted from the payment of the levy for their market making transactions
- ❖ Automatic levy suspension/reinstatement triggering mechanism
- ❖ Effective December 2005, no levy is paid as the automatic levy suspension mechanism was triggered
- ❖ Circumstances qualified for compensation
- ❖ Method of making claim for compensation
- ❖ Submission of claims
- ❖ Persons not qualified for compensation
- ❖ “qualified client”
- ❖ Commission may require records
  - Require the person to produce to the Commission originals or copies of such records as the Commission may reasonably require

## **Subrogation Rights**

- ❖ Subrogation of the Commission to rights, etc. of claimant on payment from compensation fund
- ❖ File proof of debt with liquidators or administrators of the defaulted broker

## **Management of the Fund**

Management of compensation fund by the SFC

- ❖ Policy
- ❖ Accounts
- ❖ Investment

## **Securities & Futures (Transfer of Functions – Investor Compensation Company) Order**

- ❖ Transfer of functions of the Commission, e.g.
  - Maintaining the compensation fund
  - Keeping proper accounts of the compensation fund
  - Investing money which forms part of the compensation fund

- Determination of a claim for compensation
- Making payments out of the compensation fund

## **Investor Compensation Company Limited**

- ❖ A wholly-owned subsidiary of the SFC
- ❖ Board – 5 directors
- ❖ Claim Committee
- ❖ Staff
- ❖ Claim Manager
- ❖ Other outsourcing agents

## **Case handled by the Investor Compensation Company Limited**

- ❖ 12 dispute cases between individual clients and their broker
- ❖ 2 cases rejected: not within the scope covered by the Investor Compensation Fund
- ❖ 10 cases where the securities account opened with an intermediary had been misappropriated
  - 2 cases rejected: unable to provide sufficient evidence to the ICC
  - 6 cases withdrawn: claimants compensated by the intermediary
  - 2 cases are being processed

## **Case handled by the Investor Compensation Co Ltd**

### **5 broker defaults**

- ❖ 1 case: a third party rescued the defaulted brokerage
- ❖ 2 cases: ICC made compensation payments to claimants who suffered loss
- ❖ 2 cases: pending investigation by the administrators

**DAY 4**

**GOOD CORPORATE GOVERNANCE IMPACT FOR  
BETTER HUMAN LIFE & RIGHTS**

## Objectives of the Module

- The role of Civil Society Organisations in strengthening the demand side in the Right to Information Regime
- Responsibility of certain Non-governmental organisations (NGOs) categorised as Public Authorities under the Act
- Strategies that can be adopted by CSOs for creating awareness on the Act and facilitating its effective use

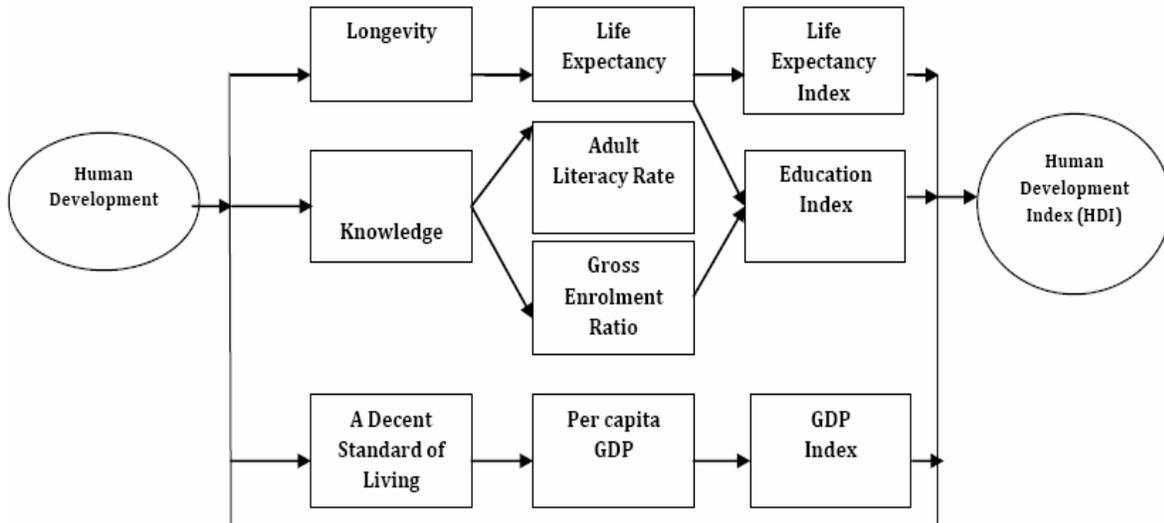
## Key attributes of good governance

- Transparency
- Responsibility
- Accountability
- Participation
- Responsiveness (To The Needs Of The People)



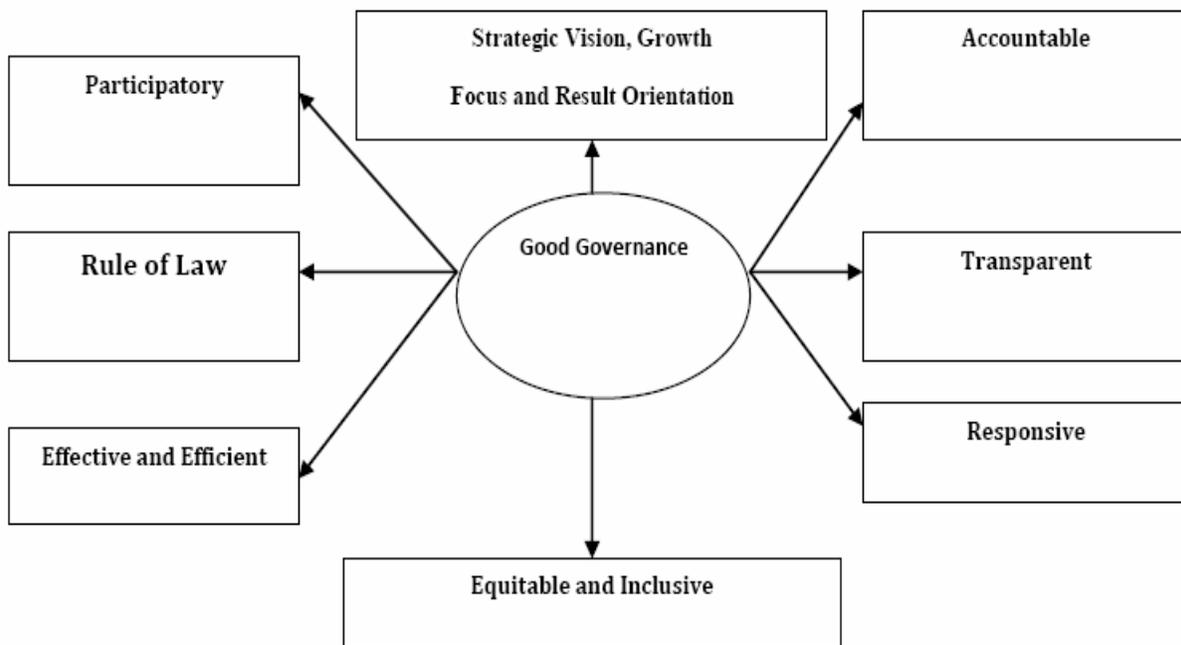
# Good Corporate Governance for better human life development

Figure 1: The Structure of Human Development Index



# Characteristics of Good Corporate Governance

Figure 2: Characteristics of Good Governance



## **How are good governance and human rights linked?**

- Democratic institutions
- Service delivery
- Rule of law
- Anti-Corruption

## **Civil Society & Good Governance**

### **What is Civil Society?**

*“Civil society or civil institutions can be in totality referred to as voluntary, civic and social organizations or institutions which form the basis of a functioning society as opposed to the force backed structures of a state (regardless of that state's political system)”.*

Civil Society often constitutes organizations such as:

- Developmental Non Governmental Organizations
- Citizens Groups
- Self Help Groups
- Professional Associations
- Registered Charities
- Business Associations
- Trade Unions
- Faith Based Associations
- Coalition and advocacy Groups etc.

### **Concept of Good Governance**

Good governance provides a platform that enables the Government to operate efficiently, effectively and transparently and to be accountable to the public. Primary Principles of Good Governance include:

- Public participation in Government
- Respect for the rule of law

- Freedom of expression and association
- Transparency and accountability
- Legitimacy of Government

## **Civil Society & Good Governance**

*Civil Society's involvement occupies a critical place in the governance process and promotes good governance by facilitating people's collective action for attaining sustainable socio-economic outcomes for the common good of the society.*

Civil Society promotes Good Governance through:

- **Citizenship Development:** For citizens to be active in public affairs and participate in efforts that promote good governance.
- **Policy Formulation and Advocacy:** Influencing the decisions of legislators, elected representatives and public administrators
- **Watchdog role:** Playing a crucial role in evaluating the policies and actions of the Government
- **Welfare Service Delivery:** Providing necessary institutional basis for service delivery.
- **Impacting Electoral Politics:** Impacting the outcomes of the electoral process
- **Reform and Social Change:** Serve as an instrument for reform and social change
- **Collective Action:** Facilitating peoples collective action in attaining sustainable socio-economic outcomes

## **Civil Society & Right to Information**

RTI is a weapon in the hands of Civil Society. RTI empowers the civil society with the Right to seek information and helps in:

- Enabling Good Governance
- Ensuring accountability and transparency
- Ensuring participation of public in governance
- Eliminating corruption &
- Empowering people

Volunteers from Civil Society Organization can invoke RTI to access any:

- Information pertaining to any of public authorities
- Photocopies of Government contracts, payment, estimates, measurements of engineering works, drawings, records books and registers etc.
- Samples of materials used in the construction of any Government project like roads, drains, buildings etc.

## **Right to Information & Social Audit**

*To attain greater public accountability and transparency using RTI, CSOs across India have adopted a novel social accountability tool that goes hand in glove with RTI – **SOCIAL AUDIT**.*

*“Social Audit is an independent and participatory evaluation of the performance of a public agency or a programme or scheme. Social Audit enables the Civil Society to assess whether a public authority lives up to the shared values and objectives it is committed to”.*

## **Principles of Social Audit**

**Complete transparency** in the process of administration and decision-making

**Right based entitlement** for all the affected persons to participate in the process of decision making and validation.

**Immediate and public answerability** of all representatives & functionaries of a public authority to affected people on relevant actions & inactions.

The RTI Act can be coupled with Social Audit to ensure the following:

- Access and audit availability of information in the public domain.
- Generate demystified and understandable formats for better public comprehension.
- Provide for the community to verify recorded information
- Facilitate a regime of transparency and accountability

## **Examples of How RTI can be used to undertake Social Audit of Government processes, programmes and schemes**

### ➤ **National Rural Employment Guarantee Scheme**

Volunteers from CSOs can inspect mandatory records maintained by Gram Panchayats & seek information & explanation under the scheme. Records that can be verified include:

- ✓ Application Registration Register
- ✓ Job Card Register
- ✓ Employment Register
- ✓ Estimates Register
- ✓ Muster Roll Register
- ✓ Measurement Books (M B)
- ✓ Complaint Register, etc

### ➤ **Integrated Child Development Services**

Volunteers from CSOs can enquire and ensure whether proper services are provided at ICDS (Anganwadi) centre. RTI Act can be used to get information on: (sub. to exemptions)

- ✓ Registration of beneficiaries
- ✓ Attendance of children and Anganwadi Teacher
- ✓ Growth monitoring of children & pregnant women
- ✓ Participation in immunization
- ✓ Supplemental nutrition
- ✓ Pre-school education ( 2-5 years)
- ✓ Regular health checkups
- ✓ Primary schools enrollment after anganwadi

### ➤ **Primary Health Services**

RTI can be used significantly to enhance PHC service delivery. Volunteers from CSOs can seek information with respect to the functioning of the PHC such as: (sub. to exemptions)

- ✓ Attendance of medical officer and other staff
- ✓ Field visits & supervisory visits of the PHC staff
- ✓ Stock registers and inventory of medicines
- ✓ No. of Outpatients treated
- ✓ No. of Surgeries conducted and their success rate
- ✓ Inspection of immunisation registers & cold chain
- ✓ Inspection of other relevant registers
- ✓ Samples of medicines being supplied to patients.

## **Case Studies on RTI**

Some important functions that the CSOs can play with regard to RTI are as follows:

- Involve in basic service delivery and provide necessary institutional basis to the RTI movement along with the Government.

- As grassroots organisations, promote collective action using the RTI Act to improve access to basic services.
- Education and organise awareness programmes on RTI Act partnering with the Government
- Promote Good Governance and social equity by accessing information.
- Use the RTI Act in disseminating information on Government programmes.
- Use Social Audit and RTI in assessing the performance public offices.
- Act as ‘strategic partners’ to the government in implementing the Act
- Assumes the role of spokesman for the public and at times acts as a representative to request information disclosure
- CSOs act as a means for the public to gain information and promote usage of the information disclosure system
- The role of the CSOs is to act as a bridge to people to access information and play a role of an Advocate and a supporter

### **Strategies to Promote RTI for CSOs**

- **Networking:** Form networks for sharing development experiences and lessons learnt on a regular basis, act as ‘policy watch groups’ for tracking developments in the law, and identify opportunities for intervening in the policy process.
- **Advocacy:** Engage in advocacy on key issues of public interest. This can go a long way in enabling greater access to information and effective implementation of the RTI Act.
- **Effective use of the media:** Highlight key issues and expose wrongdoings of public institutions and functionaries through the media on the basis of evidence and information obtained through the RTI Act.
- **Capacity Building:** Develop strong capacity for using RTI to undertake evaluation and audit of Government programmes.
- **Awareness Generation:** make conscious efforts to generate greater awareness among the general public on their right to information and its implications.

**DAY 5**

**GLOBAL CORPORATE GOVERNANCE**

## **Objectives of the Session**

- Asymmetries in Global Economic Governance
- Impetus for Asian Regionalism
- Status of regional economic cooperation in Asia and its limitations
- Relevance of a pan-Asian Framework
- Gains from Asian economic integration
- Areas of regional cooperation

## **Asymmetries in Global Economic Governance: GATT/WTO**

- Decision-making is supposed to be by ‘consensus’
- ‘Quad’ countries especially the US and the EU have conventionally dominated the process of agenda-setting and decision-making
- Developing countries constitute a majority of the membership but have remained peripheral players in decision-making
- Draft Ministerial texts heavily influenced by the submissions by the US/EU
  - Neglecting the widely supported submissions by developing country coalitions
  - Singapore Issues; Agriculture
- Ministerial collapsed; putting into question the future of the Round
- The process could be revived in July 2004 Framework Agreement negotiated by FIPs including Brazil and India representatives of developing countries

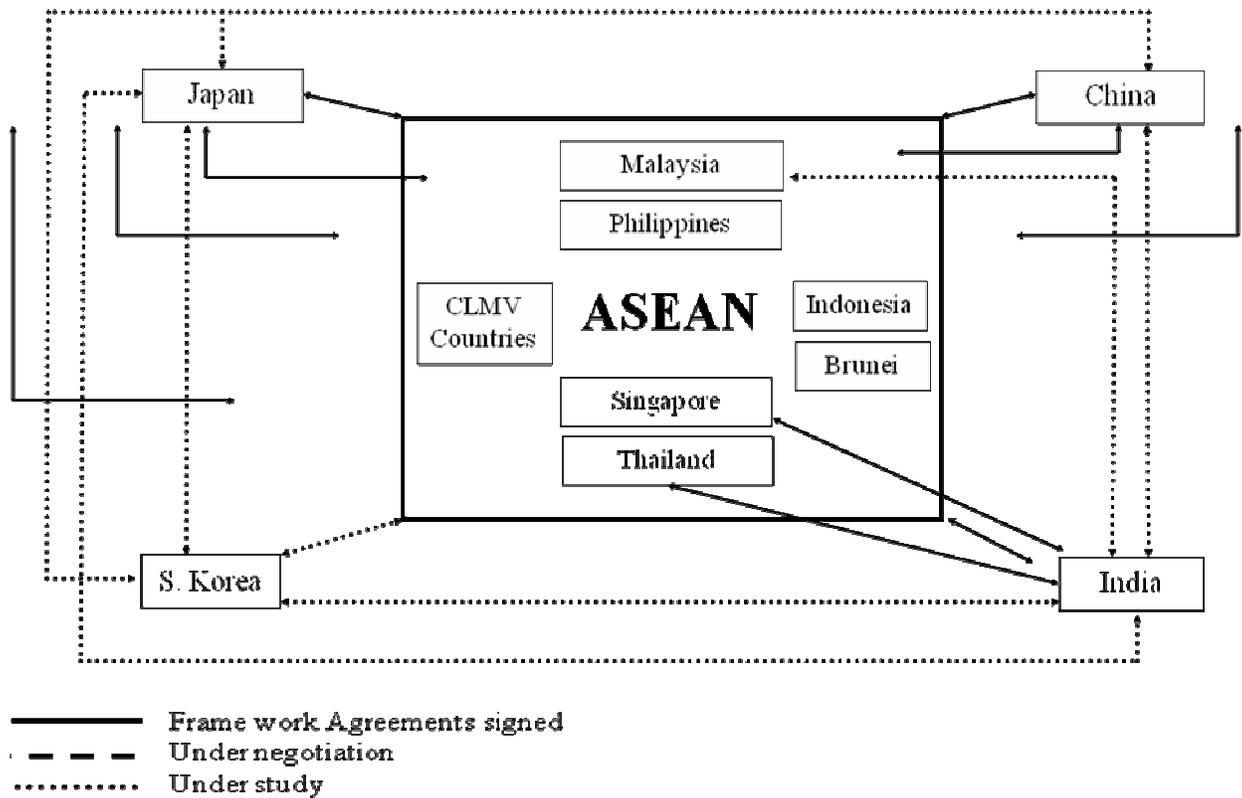
## **Impetus for Asian regionalism**

- Response to western regionalism
- Slow progress of multilateral trade negotiations
- Emergence of Asia as a centre of final demand
  - Asia emerging as the centre of gravity of the world economy with 3 of the 4 largest economies in the world
- Urge to exploit synergies
  - Initially driven by flying geeze; now vertical specialization
  - 55% of Asia’s trade with itself
- Global imbalances and Asian regionalism

## Regional Economic Cooperation in Asia

- Sub-regional
  - Economic Integration in ASEAN: AFTA and beyond
  - Economic Cooperation in South Asia:
    - SAPTA (1993)/ SAFTA Agreement (2004)
    - BIMSTEC Framework Agreement (2004)
- ASEAN+1 FTAs
  - FTAs between China-ASEAN, India-ASEAN, Japan-ASEAN, ASEAN-South Korea
  - FTAs between Individual ASEAN countries and +1 countries: Japan-Singapore, India-Thailand, India-Singapore CECA, China-Malaysia, Japan-Malaysia, Japan-Philippines, India-Malaysia
- Between +1 countries: e.g. India-China, India-Japan, and India-Korea

*A Virtual Asian Community is already emerging from a complex web of FTAs*



## **Importance of broader pan-Asian Cooperation**

- However, bilateral and sub-regional initiatives do not provide a seamless market to businesses to region-wide industrial restructuring
- No do they provide a framework for regional coordination on global governance
- Need for an over-arching, pan-Asian framework to facilitate exploitation of considerable synergies for mutual benefit
- Taking advantage of the fact that some cooperation is already on in ASEAN+1 frameworks, Japan, ASEAN, China, India and Korea (JACIK) or ASEAN+3+India could form the core group

## **Global Economic Environment: Prospects for developing Countries**

### *It is the best of times...it is the worst of times*

- Last few years have been good for developing countries as a whole—
- Growth at around 7% near record, and closing gap with developed countries
  - African growth for past decade averaged 5.4%
    - Even resource poor countries have done well, averaging 4% over past decade
    - 6.1% growth for 2007
    - Up from 5.7% in 2006
    - Five countries with 7% or more growth from 1998-2006

### *But not everyone is doing well*

- Growing inequality within most countries
  - Implying reductions in poverty slower than one might have expected
- And some countries not doing very well
  - 13 African countries, with 25% of population, grew less than 3% from 1998-2006
  - And another 25 countries, with almost 50% of Africa's population, grew between 3% and 5%

## Developing Countries Facing Major Challenges in 2008

- Increasing food prices
  - Growing global demand
  - High energy price, and integration of global energy and food markets, through bio-fuels
  - Global warming
  - Impending water problems
  - *Double edged*—food producers better off, food importers, urban

## 2008 worries

- **Global financial instability**
  - Long predicted, as result of global imbalances
    - Inadequate American regulation, bad lending practices, misguided macro-economic policies major determinant of global imbalances
    - With America borrowing \$850 billion in 2006, even if China completely eliminated its 2006 multilateral trade surplus, and even if that translated dollar for dollar into smaller U.S. trade deficit, American trade deficit would have been huge
    - Money flowing wrong way—from poor countries to rich
    - Long standing worry about a disorderly working out of imbalances

## Developing Countries Facing Major Challenges in 2008

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  - Global warming
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## **Slower growth in 2008**

- America's consumption driven growth not sustainable
  - Zero savings rate for last couple of years
  - Driven in part by housing bubble
  - And financed by “toxic” mortgages
    - Often hidden in complex securities
    - Lack of transparency
    - Bad regulation
- “Game is up”
  - Falling housing prices mean households will want to save more
  - Drying up of mortgage markets means that even if they wanted to continue consumption binge they can't
  - Result—America is likely to return to more “normal” savings rate (4 to 6%)
  - Speed of return will determine length and duration of slowdown
    - This, in turn, will depend in part on adequacy of policy responses

## **Global Financial System**

- High level of instability
- With developing countries still bearing brunt of risk
  - Some improvement in lending patterns in recent years
- Failing and inequitable global reserve system
  - With developing countries lending US (and other reserve countries) trillions of dollars at low interest rates
  - Implicit subsidy to U.S. greater than all of its foreign aid

## **Global Governance**

- Underlying many of these problems is a continuing problem of global governance, especially in the area of global economic governance

- Highlighted by problems at the World Bank
- And the way its leader is chosen
  - Not a search for the most qualified person
  - But essentially the “pick” of the U.S.
    - Questions about judgment expressed at the time
    - Worse fears realized
- With governance a central focus of policy discourse, inadequacies in governance in the governance of IMF and World Bank undermine their effectiveness
- Some improvements in global governance, but not enough
  - Changes in IMF have little impact on decision making
  - New head chosen exactly in same way as past
    - In spite of dissatisfaction with recent selections at World Bank and IMF
  - Broader participation, more transparency at WTO
    - But still not enough
- Consequences: excessive influence of special interests (financial, MNC’s)

## **The Role of the UN**

- Needs to set international economic agenda
  - Balancing interests of developed and developing countries
  - Broader perspectives on the role of markets, governments, and civil society
  - Broader set of objectives (sustainable, democratic, equitable development)
  - Relevant to almost every topic under discussion

## **Gains from Economic Integration in Asia: Further Evidence**

- Regional trade and integration offers Asia great potential for rapid and sustained growth
  - Much of Asia’s benefits from global trade liberalization can be realized by regional initiative alone

- Regional integration will lead to economic convergence, rising growth rates and benefit poorer countries
  - Transfer the growth stimulus from China and India to their neighbours
  - Increase trade and incomes for the rest of the world
- AEC could be an *'arc of advantage, peace and prosperity'* Prime Minister Dr Manmohan Singh

### **The Importance of East Asia Summit**

- East Asian Summit (EAS) as an annual forum brings together leaders of all the JACIK countries along with Australia and New Zealand
- Provides an appropriate forum for community-building exercise
- EAS could begin the process of coalescing the various FTAs between ASEAN and its dialogue partners into a Comprehensive Economic Partnership Arrangement of East Asia (CEPEA) or ASEAN+6
- CEPEA could be a core of an East Asian Community (EAC)
- Eventually EAC can be expanded to include other Asian countries to form an Asian Economic Community (AEC)

### **Other areas of Regional Cooperation in EAS framework**

- Monetary and Financial Cooperation
- Regional Cooperation for Energy Security
- Cooperation in S&T and Disaster Management
- Regional institution-building
  - evolving an Asian Identity
- Regional Cooperation in Global Economic Governance

### **Monetary and financial cooperation**

- Growing consensus on the importance of reserve pooling
- Need to build on the Chiang-Mai Initiative

- A modest pooling of 5% of region's reserves in a regional institution: e.g. ARB, AIB, RBA
  - Exchange rate stability
  - An Asian SDR as a unit of account backed by the Asian Reserve
  - Asian Bond market development for financing huge infrastructure investments and regional public goods
  - Huge requirement for infrastructure investments in JACIK region
  - Additional demand generation to enable fuller utilization of capacity
- Opportunities for other financial cooperation such as cooperation between Asian Export-Import Banks;
- cross listing of securities

### **Asia's role in Global Governance**

- An integrated Asia will be able to seek its due place in shaping the global economic governance
  - Bretton woods institutions
  - Multilateral trade negotiations
  - Economic interdependence
  - Peace, stability and shared prosperity