

Transparency and disclosures for better corporate governance

Session III: Financial Information

Presented by: Paul Alvares, Senior Manager



Agenda

- Disclosure norms and how to improve transparency
- Impact on share prices
- Control on MIS and disclosures for outsiders
- Impact on ratings
- Training for better disclosures and transparency

Current Economic Environment – Creating transparency

<u>Economic indicators</u>	<u>2006-07</u>	<u>2000-01</u>
GDP	9.4%	4.4%
FDI (Rs. Crores)	70,630	10,733
Forex reserve (USD billion)	199	42
External Debt (USD billion)	155	101
Wholesale Price Index	5.7% (P)	7.1%
Prime Lending Rate	12.4% (P)	12%

(P) - Provisional

Transparency-Key Drivers

- Indian companies going global- TATA- Corus, Suzlon-Hansen, Hindalco- Novelis and Ranbaxy-Terapia
- Global companies especially leveraging outsourcing opportunities in India
- Entry of global players in Indian markets through JV's- Bharti-Wal-Mart
- Huge Private Equity, Venture Capitalist investments in India
- Huge demand for infrastructure propels the growth in Real Estate

Disclosure norms and how to improve transparency

- Current disclosure norms – where do we stand?
- What do the global investors expect?
- Steps to improve transparency in India

Disclosure norms and how to improve transparency

Current disclosure norms – where do we stand?

- Disclosures required in the Annual Report
- Disclosures required to be posted on the company's website
- Disclosures required to be made to the Stock Exchange

Disclosures required in the Annual Report

Disclosures relating to accounts

Particulars

Section

Disclosure related to financial statements	217 (1)
Business related information	217 (2)
Reporting information on key employees	217 (2A) (a)
Relationship with directors	217 (2A) (b)
Reporting on remarks/ qualifications of Auditor	217

Disclosure relating to audit committee

Composition of audit committee	292A
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Disclosures required in the Annual Report

Disclosures relating to clause 49 of the listing agreement;

Particulars

Clause

Compliance with accounting standards	C49 IV (B)
Directors transaction with company	C49 IV (E) (i)
Directors remuneration	C49 IV (E) (ii)
Criteria for payment to non-executive directors	C49 IV (E) (iii)
Director's holding	C49 IV (E) (iv)
Compliance to code of conduct	C49 I (D) (ii)
Management discussion and analysis	C49 IV (F)
Reporting on compliance with Clause 49 requirements	C49 VI / VII (1)
Certification of compliance	C49 VII (1)

Disclosures required to be posted on the company's website

Particulars

Clause

Code of conduct

C49 I (D)

Criteria for payment to Non-executive directors

C49 I (D)

Quarterly results

C49 IV (G)

Disclosures to be made to the stock exchange

Particulars

Clause

Quarterly results

C49 IV (G)

Quarterly compliance report on Clause 49

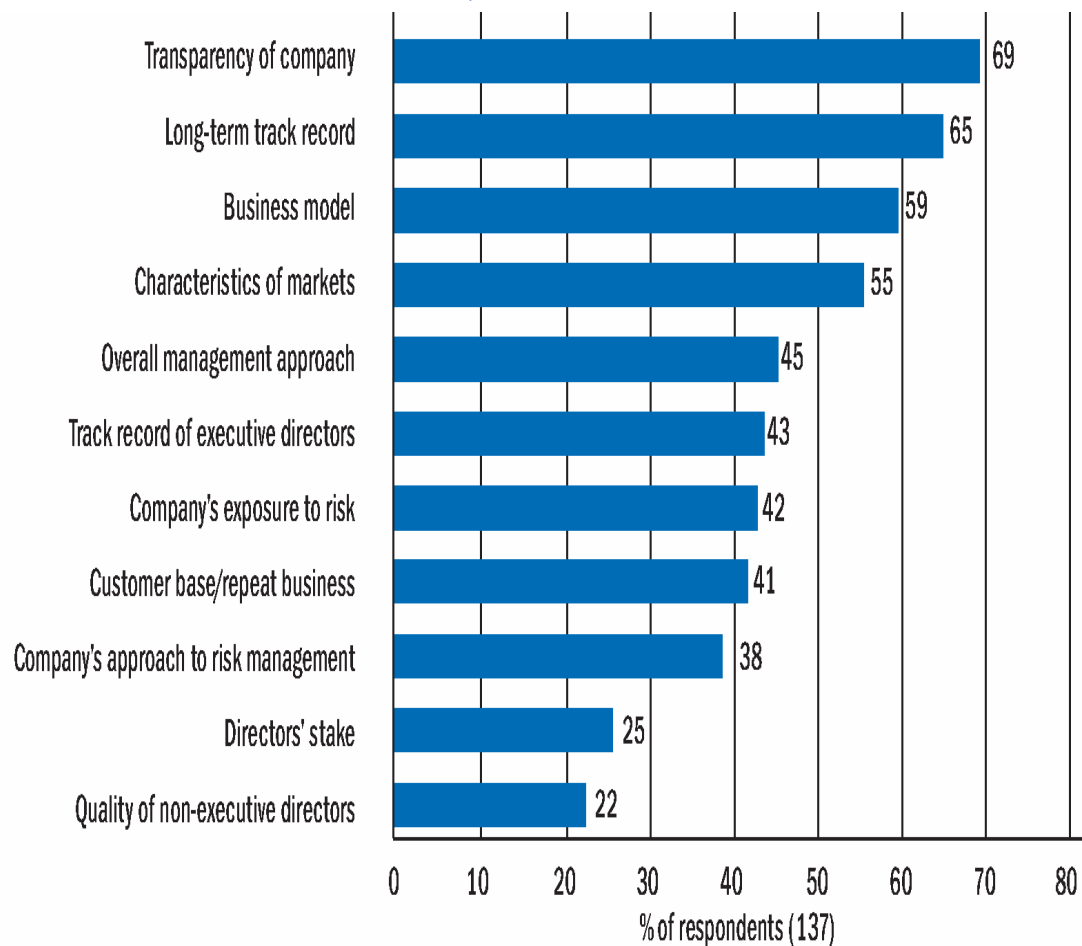
C49 VI

What do global investors expect

Transparency is prioritized as the most important factor when making an initial investment in a company

Transparency = information

Transparency = attitude



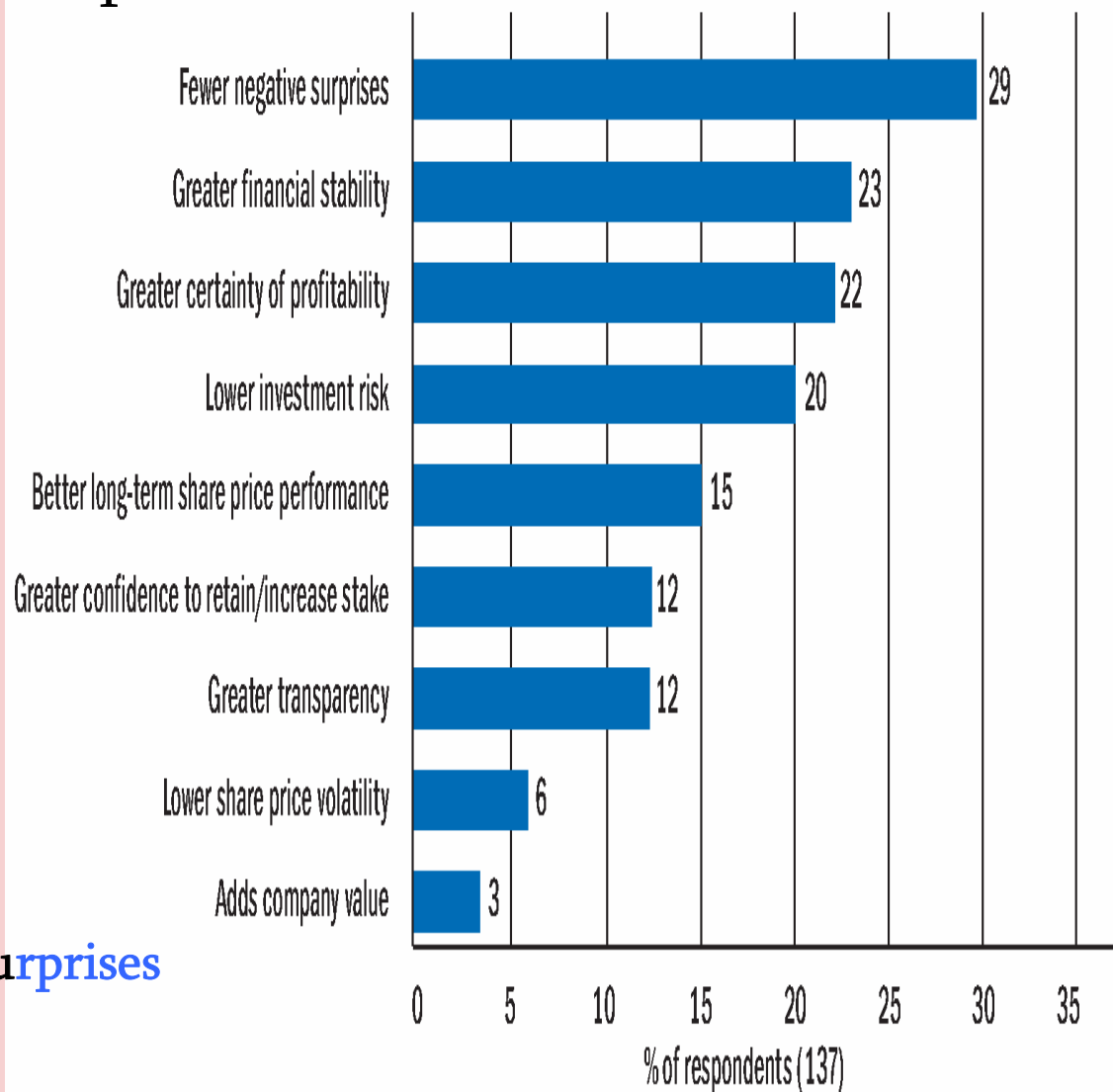
What do global investors expect

Quantity \neq Quality

....investors need better information



What do global investors expect



Better risk management = lesser surprises

Steps to improve transparency in India

Improvement in the **quality of information** to shareholders

How relevant is some of
the information that
goes to shareholders?



Steps to improve transparency in India

Improvement in the **quality of independent directors**

Change the Jee Huzoor
attitude



Steps to improve transparency in India

Strengthen the **implementation** mechanism

Its not the introduction
of the law which
ensures transparency,
but the implementation
of it



Steps to improve transparency in India

Consequences for non compliance

No penal consequences
= no compliance



Steps to improve transparency in India

Need for **implementation guidance**

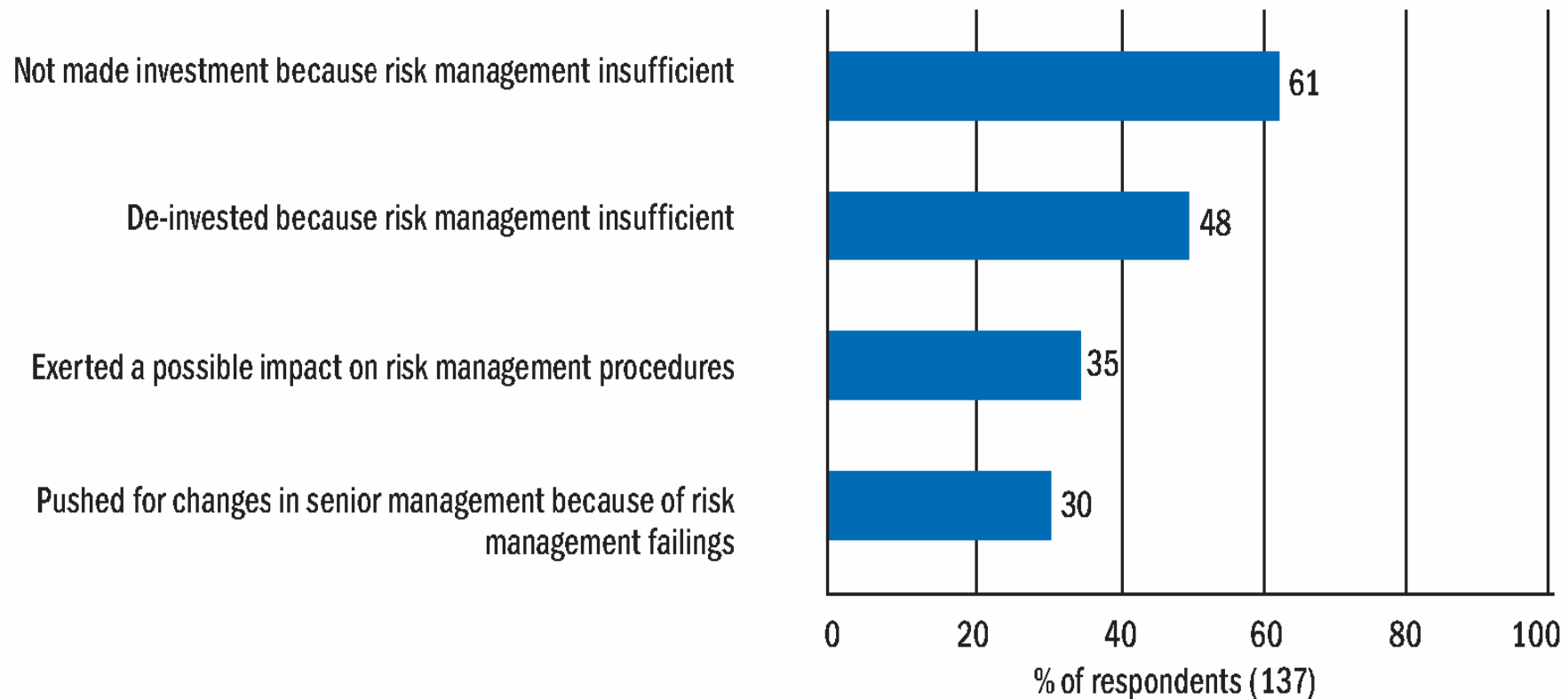
Successful
implementation of any
regulation needs
continuous oxygen of
implementation
guidance



Impact on share prices

Investors apply a **penalty** when they consider **risk management to be insufficient**

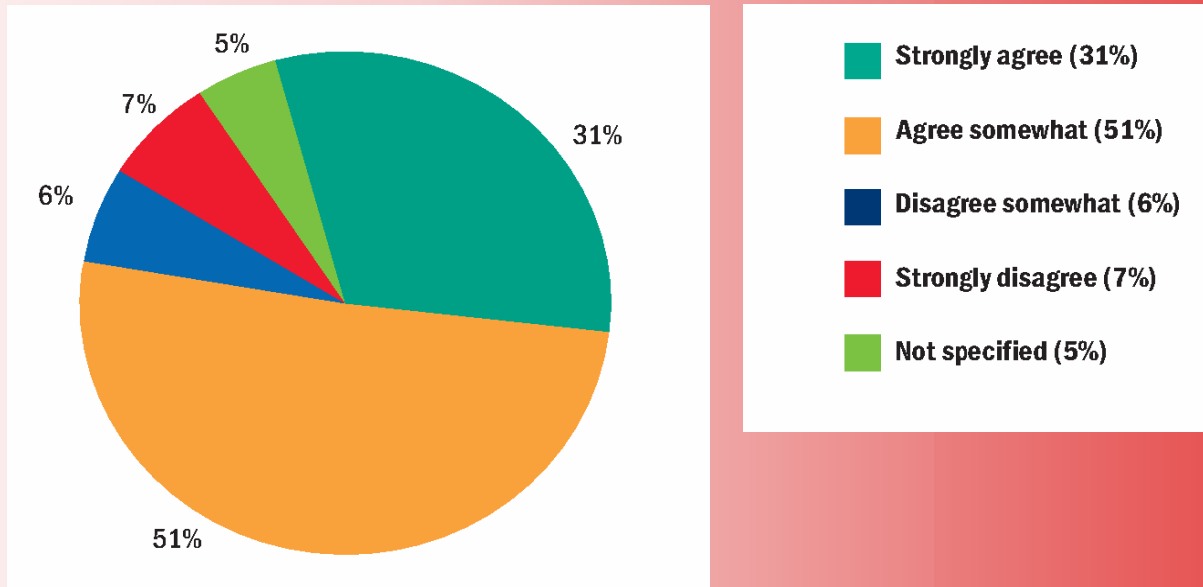
Have there been any instances you can recall where you, as a major investor have....?



Impact on share prices

Large investors believe that **good risk management is worth a premium price**

Do you agree or disagree with a view that it is worth paying a premium for companies that can demonstrate a successful approach to risk management?



Control of MIS and disclosure for outsiders

- **Speed of reliable information** is the need of investors today
- **Good software support** and a **strong FSCP** is the backbone of reliable reporting
- **Information** to be **measured** before it is shared
- **Reliable forecasting** processes
- **Generating consolidated information** is the real challenge

Impact on ratings

Does a good corporate governance have a positive impact on ratings?

- Would never be the sole determinant of a rating, but can have enhancing effect
- Trend of Corporate Governance ratings and also of General Company ratings

Training for better disclosure and transparency

↘ Training is the need of current times due to increasing attrition

Companies are running the tight rope of demanding expectations v/s reducing quality of manpower

Focussed training on specific skills is a must



Lack of Training= Higher Risk = May Lower Quality of Governance