

Address by Chief Guest:

Mr. Prem Chand Gupta, Hon'ble Minister for Company Affairs, Government of India

Ms. Komal Anand, Secretary, Ministry of Company Affairs, Mr. Michael Carter, Country Director, World Bank, Mr. Sunil K. Munjal, Past President CII & MD & CEO, Hero Corporate Services Ltd., Mr. Chandrajit Banerjee, Executive Director, NFCG & Senior Director, CII, Ladies and Gentlemen. I am very glad to be present here today at the inaugural session of the 2006 Policy Dialogue on Corporate Governance in India organized by National Foundation for Corporate Governance and in cooperation with OECD.

The Indian economy has registered an impressive growth rate of more than 8% in 2004-05 and is expected to keep up the same pace of growth in this year also.

The capital market is buyout and public offerings in 2005 crossed almost Rs 40,000 crores. The vibrancy of the economy is also reflected in the corporate sector, which has grown impressively @ 14% in 2002-03, 25% in 2003-04 and 33% in 2004-05. Ministry of Company Affairs statistics reveal that the number of companies registered in every month in 2005-06 is higher than the corresponding figures of the last year. This shows us well, for the growth of India's economy to even greater heights. There is no denying that the private sector has emerged as the prime catalyst for economic growth.

Friends, as you all know, this is the age of mega corporations, MNCs are a reality of life, globalization has meant that the scope of action of such companies has extended well beyond geographical boundaries. Infact, geographical boundaries are now loosing their relevance in India too. The liberalization of the economy undertaken by the Government, over the last one and half decades has given the corporate sector freedom to grow. The public – private partnership model is here to stay. Many infrastructure projects undertaken in collaboration with the private sector are in various stages of implementation and completion.

Friends, companies have to undertake huge projects for nation building and for this purpose, they need huge funds. These huge funds are available largely with institutional investors and to some extent with individual investors. While aiming these funds, investors, both individual and institutional would like to know how the company is governed. The Corporate Governance phase assumed considerable attention after the debate of companies like Enron, WorldCom and so on and has become centre point for making any investment decision. This shows the importance of adopting sound Corporate Governance practices.

Friends, the vast majority of companies that make up the Indian Corporate sector are made up of small and family owned businesses, therefore, I feel, it is necessary for the experts to debate what should be the compliance norms for smaller and medium enterprises. We do not believe that Corporate Governance norms should be followed simply because the law says so. This will not serve the desired purposes. Corporate Governance norms must be flexible, must be flexible enough to encourage voluntary compliance without imposing a heavy cost of burden on such companies.

Friends, the Corporate form of business touches the lives of many people in different ways, directly or indirectly. Many people in our country still look up to the Government for employment. In this age of liberalization, when the Government is withdrawing itself from economic activities, it is becoming increasingly difficult to provide government jobs to all the aspirants. Now it is the turn of the private sector to shoulder this responsibility so that the problem of unemployment can be tackled effectively. Any further ignoring of this responsibility will result into larger differential between haves and have not's. This will lead to clashes in the society and ultimately affect the pace of economic reforms and growth of our economy. There is no denial that profit making is the ultimate aim of business. We must remember that the prosperity of the nation depends on all sections of its people and not only a select few. I acknowledge that many corporate practices, practice corporate social responsibility by actively involving themselves in social activities like providing drinking water, creating educational facilities and so on.

I would like to call upon all corporates to adopt corporate social responsibilities as an integral part of their business strategy, having as much importance as profit making. Only then the whole of India can rejoice.

I would now like to share with you some of the measures that we have taken to bring about legislative and administrative reforms with a view to improve the service delivery mechanism and level of satisfaction among the various stakeholders on the legislative front. We have reached the final stages in preparing a comprehensive new Company's bill. This bill will strengthen Corporate Governance and investor protection measures. We have also released the concept paper on limited liability partnership law, we have also carried out amendments to basic legislation governing our three professional institutes. The National Advisory Committee on accounting standards has recently submitted its recommendations on the accounting standards to the Ministry, which is intended to bring disclosure norms in consensus with international best practices. I am sure these steps will go a long way to encourage the flow of capital and make the economy even more competitive. We are also at the final stages of implementing the e-governance project, which is known as the MCA21, which is aimed at striking a balance between trade facilitation on the one hand and effective enforcement of corporate laws on the other hand. All businesses with the office of the Registrar of Companies will be in electronic mode very soon. This will increase transparency levels and further strengthen good Corporate Governance practices.

Before I conclude, I would like to compliment the NFCG for organizing this conference in association with OECD. I see that for the first time, Corporate Governance in state owned enterprises will also be debated in technical sessions. I am informed that this is probably the first such initiative in the country where in all concerned stakeholders have been brought together for sharing their experiences. I hope that their deliberations will contribute towards evolving more purposeful, easy to apply, sound Corporate Governance practices keeping in mind the specific requirements of the country.

With these words, I wish the conference a grand success. Thank you.

Inaugural Address:

Ms. Komal Anand, Secretary, Ministry of Company Affairs, Government of India

Mr. Sunil Kant Munjal, Mr. Carter, Mr Ueda, Mr. Banerjee, Ladies and Gentlemen. It is indeed a great pleasure for the Government and also specifically for the National Foundation of Corporate Governance, a forum that we have formed, very recently in India, to be able to host this conference along with OECD. The genesis and the origin of the idea really came from a conference, which was held in Bali about six months back. It is the Asian Round Table on Corporate Governance where as delegates, we found that enough information on India was not really available and OECD also felt that it would be an excellent idea to host it in India itself and make it an opportunity for people to participate in the conference so that a general idea and more specific information could be obtained about corporate governance in many sectors of our economy and specifically by institutions, which were actively working in the economy so hence, we decided that we would cover a wider aspect and there were subjects and institutions who are looking into and practicing or trying to bring about improvements in corporate governance so it was the corporates, Ministry of Company Affairs and the Public Sector Undertakings and SEBI along with the banking sector so if you look at the programme, it has been thus structured that there would be sessions on all these interesting items so that a wider appreciation could be held of what is happening in India presently.

As the Minister told you, we are really witnessing a very wide growth in corporate activity in the country. We have about more than seven lac companies now registered in India and the figure is growing every month. From various regions, when we receive reports, we find that three or four regions are really leading, one is of course, the Northern region, Delhi itself, Maharashtra is also very aggressively working, many centers in the South plus Kolkata region, we find that the economic activity is really very interesting, to observe how it is certainly growing.

The issue of good governance is relevant not only to the corporates but equally to financial institutions whether state-owned or not. The initial drive for better corporate governance and disclosures was initiated, perhaps as a result of the 1992 stock market scams and the report of the Joint Parliamentary Committees on the need for corporate reforms, which got the Government also started and we started working on series of reforms, which were required. The response of the international community to look towards India as an investment destination as well as the economic reform and the liberalization of the economy, which began in 1990, the role of the Department of Company Affairs, Indian Industry and business associations deserve special recognition in starting a movement for better corporate governance and as early as 2001, listed companies in India needed to follow very stringent guidelines on corporate governance, which today rank amongst the best in the world.

The existence of a vibrant and dynamic corporate sector in India, highlights the criticality of good corporate governance, not just for the Indian industry but for the economic development and well being of the nation as a whole. When employment and livelihood of a large number of people is very discerned then when large amounts of public money, both in the form of equity and debt is involved, it becomes imperative to ensure that companies are governed well, that management is

accountable to the Board, the Directors discharge their responsibilities appropriately, that proper risk management systems are in place and that companies disclose information to shareholders in a timely and transparent manner.

India's track record in the area of corporate governance has been very encouraging. Over the last ten years, industry, Government, regulatory agencies, have taken several initiatives to strengthen the corporate governance movement in India and to implement good corporate governance practices in the country. Here I would like to mention, the efforts which are now underway in the Government itself, of course, our Minister also told you very briefly, what we have been doing in the last one year and what steps are now immediately being planned in the country, which would ensure transparency, efficiency and better governance. We are now working on the new Company law which would provide a legal framework in tune with emerging economic scenario, encouraging good corporate governance and enabling protection of interest of stakeholders including their investors, the emphasis will be more on self-regulation with greater accountability through disclosures. There is a need for greater responsibility to be assumed by shareholders for decision affecting the company, equally the governance process should protect the interest of all shareholders equally. We expect that our proposals for the new company law would enable a framework that will help business to compete globally and we would also like to mention here that the ushering of liberalization in the country in the 1990's, there has been a gradual shift from the approval based regime to a disclosure based regime. For such a regime to function fairly and smoothly, it is very important that the credibility of this disclosure is short, since decision by various stakeholders would be made on the basis of this disclosure, this gives greater responsibility to professionals like Chartered Accountants, Company Secretaries, that they should be much more diligent in their functioning.

We are planning to introduce the revised company bill in the Parliament in April this year and we hope that it will be passed during the course of this year, our attempts would be towards that end. In order to increase the quality and accountability amongst professionals, we have brought in three amendment bills in the existing statutes governing these professions. Once these amendments become law, the disciplinary process would become expeditious, unbiased leading to greater accountability. Further, it would lead to setting up of a quality review board, which would guide the professionals in improving quality of their service.

The Ministry of Company Affairs is now entering into an era of E-governance with the implementation of the MCA21, that is Ministry of Company Affairs in the 21st Century. This would enable e-filing of documents and returns by companies and it would also enable Government to be more responsive to their needs, to the sector, corporate sector and take real time in implementing many of their requirements that are there. The MCA21 project will come live on the 18th of February, the first mission roll-out will be in Coimbatore followed by other stations, we will be implementing this programme throughout February, March and by 24th of April, it will be all over India. Henceforth, it will be mandatory for all corporates to be using electronic e-filing in all their work.

From the point of view of transparency, efficiency and convenience, you will agree that this will be a big step forward for doing and enabling business in India. No

longer would you be required to file your returns to paper work, standing in queues, etc. making it very difficult for your offices to do business, to carry out all these requirements. Now, you would simply log on to your home computer and register your company, pay through your credit card and we hope that in real time, we will be able to deliver the services. Tata Consultancy, who are implementing and going to be our boot operators for the next six years. There was a report, which we came across by the World Bank that doing business in India in several sectors was still very difficult. This report, Mr. Carter, did get the Government thinking and in the last two years, we have been working on these two projects and we found that with the implementation of MCA21 instead of the 77th position, which was given to India last review, we should be in the first ten, if not the first five because the time taken now would be very very short and we hope that it will be a great asset to the corporates when they do business, henceforth in India.

I found that this is the right forum to at least mention that since it is only day after tomorrow, we would be pushing the button for the first inaugural at Coimbatore for this programme.

The Ministry of Company Affairs has also been contemplating on certain other legislative measures and we hope to introduce also a bill on limited liability partnerships very shortly. We have finalized it but it still needs a little more time, hands are very full at this moment, since we have a lot of other legislative business to go along with so we would be introducing the limited liability partnership, the need has been felt by the manufacturing and other needs of many financial companies who would like to adopt this form of doing business,

The National Foundation of Corporate Governance was set up outside the Government as a Trust under the Indian Trust Act in partnership with CII, ICI, ICSAI to provide good governance. The membership has now been widened to include many of the agencies and organizations representing corporates, of course including CII and others, we have also widened to include SEBI, the Reserve Bank and other Boards of PSUs and other functional organizations, so we hope that this will be a national forum for any progressive thinking and debate on good governance practices, across the board including many other disciplines and institutions so this is the first initiative of a major kind that we took with OECD and CII, that we have arranged this conference and we hope that we will be able to get a cross-section of views, when the speakers speak today and tomorrow, it would be ascertained from them as to what other various new thinkings and measures taken by many of the institutions to introduce good corporate governance into their organizations and into their working.

In this context, a policy paper on the role of institution investors and corporate governance of their portfolio companies was also prepared by the World Bank at the request of the Ministry of Company Affairs and also the National Foundation for Corporate Governance following the completion of the country's governance report on observances of standards assessed by the World Bank in April 2004.

It will be very relevant here to mention that international accounting standards, based on them, 29 accounting standards have been finalized for adoption and will be notified shortly. By the 01st of April, these accounting standards will be in operation

in India and will be adopted by each company across the country thus making country across thus making our companies globally very competitive. This is the work, which has been going on very labourisly for the last one year and the ICIA, we deserve to thank them for their work and also their committee, which was set up to finalize these standards based exactly on the international accounting standards so 29 standards are now ready for notification and on the 01st of April would be adopted in the country and we hope that this would bring our assessments of our corporates at par with any country in the world.

The enunciation of OECD principles, indeed provide a good benchmark since they are advisory in nature, they are long-binding standards and good practices for guidance and implementation, which can be adopted in specific circumstances of individuals and also to regions, OECD offers a forum for continuing dialogue and exchange of experiences amongst member and non-member countries to stay abreast of constantly changing circumstances, the OECD follows developments in corporate governance, identifying friends and seeking remedies and new challenges. We are very happy that OECD will be associating continuously with India and also with the national forum and we hope for other initiatives in this regard. We are also very hopeful of getting full support from the World Bank in these initiatives and we know that we have a friend in the World Bank and we hope to continuously have a relationship, which will be very progressive in this regard.

Lastly, I hope that during this conference, you will be able to appreciate the strides taken in India for better corporate governance in the three sectors of our economy, specifically in this case, the PSUs, the banking sector, the corporate sector and of course if it is made by the Ministry of Company Affairs.

Lastly, I would like to wish this conference a success and assure you that the inputs and the deliberations of this conference will be a great help to the National Foundation for Corporate Governance. Thank you.

Welcome Address:

Mr. Chandrajit Banerjee, Executive Director, NFCG & Senior Director, CII

Ms. Komal Anand, Secretary, Ministry of Company Affairs, Government of India

Mr. Michael Carter, Country Director, World Bank

Mr. Sunil K. Munjal, Past President CII & MD & CEO, Hero Corporate Services Ltd.

Mr. Eimon Ueda, Head-Outreach Unit, Financial Sector Reforms, OECD Secretariat

Ladies & Gentlemen,

May I extend a very warm welcome to you to this 2006 Policy Dialogue on Corporate Governance in India being organized jointly by the Ministry of Company Affairs and OECD with the NFCG and its partners, ICSI, ICAI and CII.

On behalf of the organizing committee, may I very warmly welcome our speakers from overseas and India and a very special welcome to our partners from OECD.

Before we move further, may I request the Hon'ble Minister to kindly light the lamp and inaugurate the conference.

Today we have a special privilege and honour of having Mr. Prem Chand Gupta, Hon'ble Minister for Company Affairs, Government of India. Minister, you also chair the governing council of NFCG and under your leadership and guidance, the NFCG has become the single referral point for Corporate Governance for India. Sir, the NFCG has been able to trigger off in the last few months a larger number of activities across the country on Corporate Governance. You had given NFCG a vision and since then we have been able to work together and bring the industry, professionals, academia and the stakeholders to a common platform. Your presence today Sir, is indeed a great encouragement to all of us here. A very special welcome to you to this conference.

Smt. Komal Anand, Secretary, Ministry of Company Affairs, Government of India, a warm welcome to you Maam to this very important conference. You chair the NFCG Board of Trustees and with your leadership, we have seen regular reviews, periodic meetings of the Board of Trustees, enabling several initiatives being implemented. A very warm welcome to you Maam.

May I also specially welcome Mr. Sunil Kant Munjal, Past President CII & MD & CEO, Hero Corporate Services Ltd. to the conference. We look forward to your perspectives as a corporate leader to set the tone of the policy dialogue.

Let me take this opportunity to welcome Mr. Mr. Michael Carter, Country Director, World Bank. Mr. Carter, it has been a pleasure to work with the World Bank closely in the last two years. We have been able to focus on critical issues for and our partnership on Corporate Governance audit, institutional investors and many other important subjects.

Mr. Eimon Ueda, Head-Outreach Unit, Financial Sector Reforms, OECD Secretariat. We are glad to have you and all our esteemed guests from the OECD. A special and warm welcome to you and all the others from the OECD who are here.

Ladies and Gentlemen, Ministry of Company Affairs set up a National Foundation of Corporate Governance to promote good Corporate Governance practices in India. The importance of good Corporate Governance needs no special underlining to this august audience. As you would have noticed, the NFCG's partners, stakeholders are the two institutions of Company Secretaries and Chartered Accountants and the apex Industry Association, CII and therefore may I also acknowledge the presence of Mr. N. Srinivasan, Director General of CII, Mr. Ashok Haldia from the ICAI and we will shortly be joined by Mr. N. K. Jain from ICSI.

So briefly, ladies and gentlemen, the objective of NFCG is to spread the awareness on the importance of good Corporate Governance practices, providing key inputs for developing law and regulation and encouraging research capabilities. To work with and through institutional linkages, NFCG gave accreditation to the four IIMs, two business schools, two law schools and two management institutions. This helped give a multiplex effect in promoting and propagating Corporate Governance work, research, advocacy and education. The NFCG provides assistance to these institutions by way of research, orientation on training programmes for directors and also seminars and conferences. International linkages are now being developed with organizations of repute for support on mutual basis in areas like faculty exchanges, researches and technical documents. The foundation has also directly constituted three core teams in this very crucial areas of institutional investors, independent directors and Corporate Governance audits. Under the able guidance of these very well known leaders, the norms for these critical areas would soon be rolled out. You can see some of the very important initiatives that NFCG has been able to take so far has been listed here and I do not wish to go through them, it will be available to you in your packs.

Many of the discussion papers and more details can be seen in the NFCG's website. Do visit us there and this provides an interface with you and the NFCG. Thanks.

Welcome address:

Mr. Eimon Ueda, Head-Outreach Unit, Financial Sector Reforms, OECD Secretariat:

Hon'ble Minister, distinguished guests, ladies and gentlemen, it is a great honour for me to be here to give the opening remarks on behalf of the OECD for this very important conference.

First of all, we at the OECD are very fortunate and proud to be working with the Ministry of Company Affairs for the organization of this conference. I would also extend our gratitude to NFCG for Corporate Governance, the CII and the Institute of Company Secretaries of India for co-hosting this conference. I would like to thank the international Corporate Governance network and the Government of Japan for their valuable contributions to this conference. In addition, I would like to specially thank our foreign speakers who have been willing to participate at relatively short notice. Last but not the least, I would also like to thank all of you for taking your time out of your very busy schedules to be here with us today and to share with us how earnestly your country is striving for better Corporate Governance.

As a first point, please allow me to give you some quick background on the OECD. We are an organization of 30 democratic countries, promoting economic cooperation and development through policy dialogue and through policy recommendations among member countries but OECD is no longer an organization serving only member countries. Spurred by globalization the OECD is now extending its work quiet actively to non-OECD member countries in the economies and so involving some 75 to 100 additional countries in a range of meetings and initiatives. We are taking a coordinated and cooperative approach in addressing global issues and problems that countries cannot necessarily solve on their own.

Our work on Corporate Governance has been at the forefront of this movement. The OECD principles of Corporate Governance were adopted in 1999 and revised in 2004 following close consultation with the government's and stakeholders from countries both within and outside the OECD. For the purpose of conducting personal dialogue with non OECD countries and economies on Corporate Governance, the OECD has been organizing five regional Round Tables all over the world, that is South East Europe, Eurasia, Russia, Latin America and Asia of which India is one of the core members and recently a similar initiative has been launched in the middle East and North African region. These Round Tables have been actively functioning as regional forums, assembling policy makers, regulations with academics as well as experts from private bodies and NGOs. The round tables have already published their white papers respectively which include prioritization for reforms in their regions and have agreed on their future programmes. More specifically, the Asian round table in 2005 undertook a 'stock-take' exercise to investigate progress throughout the region. Moreover, it set up a task force on Corporate Governance in banks in Asia which plans to issue its policy brief providing concrete policy recommendations later this year.

While promoting these round tables, the OECD has also started to organize bilateral policy dialogues with several leading emerging economies in order to assist their efforts to improve Corporate Governance as well as to learn from their experiences

and feed it back to OECD work. It is our great honour to work with the Government of India for this policy dialogue conference, here in Delhi.

I would also like to take this opportunity to introduce three areas of recent and ongoing work of the OECD in Corporate Governance. Firstly, following the revision of the OECD principles of Corporate Governance in 2004, which is regarded as one of the emerging financial guides with widely accepted 'best practices' within OECD member countries, the OECD has begun to develop with is called as 'assessment methodology'. This assessment methodology is expected to underpin an assessment over the implementation of the OECD principles in a jurisdiction and to provide a framework for policy discussions.

Secondly, the Ministerial meeting over the OECD last year, again on the OECD guidelines on Corporate Governance of state owned enterprises. State owned enterprises represent a substantial part of GDP employment and the market capitalization in some OECD countries as well as in many non OECD countries. The guidelines are intended to provide general advise that will assist government's in improving the Corporate Governance and the performance of the state owned enterprises. As you have seen from the agenda, this will be one of the main topics of tomorrow's meeting. Any connection therewith, references should be made to the Asian network of Corporate Governance of state owned enterprises, which has been setup recently as part of the Asian round table.

Last but not the least, dialogue with non OECD countries is further developing. In addition to further promoting regional round table and bilateral policy dialogues, which I mentioned already, the OECD has launched its work on several specific topics relevant to the challenges facing OECD as well as non OECD countries. Considering the dominant position often occupied by a number of relatively large but never the less the non listed companies within many economies, discussions to improve the Corporate Governance of non listed companies have started since last year. Similarly, reflecting the relatively weak function of the judicial systems in a number of countries, a working group has been set up to discuss the possibilities to utilize alternative dispute resolution mechanisms in mitigating conflicts involving Corporate Governance.

Improving Corporate Governance is now considered to be one of the top priorities through out OECD member countries as well as non OECD countries in addressing rapidly changing economic and business environment. As good Corporate Governance is evolutionary in nature, discussions on the improvement of Corporate Governance are still going and more people are getting involved in such discussions all over the country.

I arrived in Delhi only this morning from Istanbul where I attended the sixth meeting of the OECD Eurasian round table on Corporate Governance. Furthermore, thousand of kilometers away from here, another meeting on Corporate Governance assembling policy makers and experts from South East Europe is scheduled for today. The world is now paying close attention to India, a rapidly growing economy with great potential for further growth and ample investment opportunities and the democratic country with huge and rapidly emerging markets backed by the second largest population in the world.

Further, allow me to mention a little bit of my private things. I spent three years in Delhi from 1989 to 1992 as Financial Attaché at the Embassy of Japan at Chanakyapuri. These three years were, if I may say, a period of political instability. I saw four Prime Ministers during those three years. During that period, if I recall, Indian economy grew at a steady pace but only with budgetary deficit and external debt increasing and India faced, unfortunately unprecedented foreign exchange crises in 1991, which in-turn triggered your very serious efforts for economic reform.

India today, we are now witnessing a very strong growth of your economy and now your country is known for its provision for strategy basis for outsourcing from all over the world but India is not only receiving investments from abroad but also making active investments abroad. Many people's attention has been drawn to the recent news that one of the big companies which originated in India is now offering a huge take over with most advanced economies. Recent development in India has indeed made us realize that, as someone said, the road is becoming flat.

Throughout the meetings, today and tomorrow, I look forward to fruitful and informative discussions on the interesting and relevant topics, such as the rollover, the board, convergence with international standards, while updating on the recent progress in the Corporate Governance in India.

I hope that discussions will help us on the way ahead and identify policy options for continuing this dialogue with more concrete and focused initiatives devoted to important challenges in India. I would like to invite your active participation in the discussions so that the main objective of this meeting can be achieved, namely, to facilitate support and to inspire earnest work within your country to improve Corporate Governance and promote efficient and transparent markets. These improvements will provide a basis for sustained economic growth, capital gains for investment flows, employment and the rise in standard of living. Thank you.

Keynote Address:

Mr. Sunil K. Munjal, Past President CII & MD & CEO, Hero Corporate Services Ltd.

Good morning Ladies and Gentlemen. I am extremely happy to be here today at the inaugural of the policy dialogue 2006 on Corporate Governance and as we just heard, this is a joint initiative of the foundation along with the Ministry, OECD, CII and Institute of Company Secretaries, Chartered Accountants all together.

It is a delight to see all of them represented by their leadership within the room itself. Clearly, it is an assemblage of top thinkers, both national and also international and the Minister clearly laid out for us, what his expectations of this Conference are. It is clearly a good signal and a source of motivation and encouragement to CII to take this kind of an initiative further.

Hon'ble Minister, Mr. Prem Chand Gupta, Sir, your presence here conveys a good signal of commitment from your side to the subject, which is increasingly becoming more and more important across the globe and we at CII are certainly encouraged, infact I would say, we at NFCG because when you set it up, actually I am the one who signed the agreement on behalf of CII on that day. Industry has appreciated the several initiatives that you and your Ministry have taken in a fairly short span of time, whether it is a complete review of the Company's Act 1956 by way of bringing the concept paper earlier and then setting up Dr. Irani Committee, both in a record time. Your initiative in doing away the menace of vanishing companies by taking up constructive steps to effectively protecting the interest of the small investors, complete computerized of the functioning of the Ministry, clearly moving in the direction of e-governance and making the working more transparent and the new initiative, which you just mentioned on launching of the MCA21, also launching of the simplified exit scheme 2005 to delist companies. I am not sure, how many people realize, how important that is to allow companies to delist because the way life works, you need to have easy entry and also easy exit and then of course setting up of the National Foundation for Corporate Governance, where you yourself shared the foundation. You also just mentioned an important area and I think the foundation should now focus a little bit on this, which has Corporate Governance in SMEs because like in any other nation, 95% of the economic activity that is carried out in industry is in small and medium sized enterprises, so it is really an important area that you flagged today and I would urge the foundation to actively address this issue as well.

The initiatives clearly have been very significant and the results are there to see, it is not just in conference rooms or on paper, many of these things are actively happening. On behalf of CII, I wish to congratulate you and compliment you on a dynamic leadership and once again a very warm welcome to this conference.

Ms. Komal Anand, Secretary, Ministry of Company Affairs, Government of India, on behalf of CII and on my own behalf, a very warm welcome to you. It is under your leadership and guidance on a daily basis with that the Foundation gets its inputs and CII is working closely with you and your colleagues and we hope to make this a meaningful piece of work for national building.

Let me also welcome Mr. Michael Carter, Country Director, World Bank who has been a partner with CII on many many different initiatives and Mr. Eimon Ueda, Head-Outreach Unit, Financial Sector Reforms, OECD Secretariat. Clearly, Mr. Eimon as you said, you are not a stranger to India but the India you come to today, after your last visit, clearly is to a new India, is a different India today, much more dynamic, much more open and much more forward looking. The dialogue between OECD and non OECD countries has increasingly become more important because not only are geographic boundaries between nation getting diffused, it is also the prosperity boundaries, which are getting diffused increasingly, as many new nations reach goals which have not been seen or heard of before in the world. Countries like Russia, Brazil, China and India are clear examples that the way the world looks at its economic landscape will change in the next decade or two itself so therefore, this dialogue is extremely important. In 1996, CII took the first initiative on Corporate Governance by putting out a voluntary code of conduct for companies. That probably was the first organized initiative or attempt of this kind in India and many of our member companies took to voluntarily following that code. Since then of course, there have been many new initiatives in India and a lot of constructive work has been done, many of it by the Institutions sitting here and I see the leadership side of the Institute, Mr. Jain also walked in a little bit later, so I welcome Mr. Jain.

Desirable Corporate Governance code which was published in 1998 set the ground work for many other such initiatives to follow. As the Minister just said, good Corporate Governance not only helps in building trust with all stakeholders including customers, suppliers, creditors and diverse investors but also can be adjudged as imperative to create shareholder value in the long run for companies. Corporate compliance would be determined by the extent of industry commitment to the practices of key governance principles of trusteeship, transparency and ethical corporate practices. There is no real universal definition of Corporate Governance in the world. We have heard different people say different things and different countries have a different demand or a different set of regulations for member companies to follow. We know that Milton Freedman had defined Corporate Governance as the conduct of business in accordance with shareholder desires which generally is to make as much money as possible while conforming to the basic rules of the society embedded in laws and local customs. In my opinion, Corporate Governance should be defined as an efficient supervision which encourages doing everything better and protects the interest of the company while conforming to all established laws and ethics. Clearly, it is about a sense of trusteeship. I can give you an example, since Chandarjit mentioned this, I can give you examples of some of our own companies and we are not talking about the larger companies of the group, which have over the years got a number of awards for Corporate Governance. I am talking about our smaller and older companies in the group which are closely held private companies in which you had independent directors. Over the last 40 years, we have been organizing meetings across the table, actual Board meetings and also carried systems of arm's length transactions and pricing within the group companies. Now this is not done to demonstrate to anybody else but we ourselves found, this was benefiting the companies and the people who work within the companies. It was, truly speaking, we are the trustees and if we learn to play the role, we have seen the business continues to grow because there is tremendous energy within the system itself. It is important that Corporate Governance should promote the long term goals of the company and not necessarily only the

stakeholders and stakeholders often gets into a narrower definition again where you talk of the major ownership or the minority ownership of the company.

A little while ago, the World Economic Forum and CII had put out three potential scenarios for India going forward over the next ten to fifteen years. These were called 'Atakta Bharat' where everything seems to go down. One was called 'Bollyworld' where you grow but then you continue to be on a plateau. Third was called 'Pahle India'. And I have said this in a number of different forums and platforms that all of us collectively need to aim for 'pahle India' and the pahle India was where all of us put the nation building first and that actually came from clean Corporate Governance in every entity, not just companies. Whether you run your home or you run a society or whether you run Government, all of them need open, clean, transparent working because it is true that Indian Entrepreneurship and Indian Managers are actually as good as any in the world and they have demonstrated that in companies across the globe by providing leadership of some of the best and largest companies in the world.

It is important therefore that we provide the right environment through policy framework and then encourage individuals and companies to do their best in a form of trusteeship. I am pretty certain that when this kind of open environment that India is building, we will see India leadership in many areas come earlier rather than later. Overall Corporate Governance in any organization itself needs to be principle based and smart, the smart is really an acronym for simple, moral, accountable, responsive and transparent.

I think, today we need to realize that the markets themselves are the greatest levelers. The markets of customers, the stock markets and more than anything else, the market for talent, companies and organizations that have good practices internally that have good Corporate Governance will automatically attract the best talent and the best talent actually makes the best companies.

Ladies and Gentlemen, let me once more compliment and put it together an outstanding conference. I looked at some of the sessions that you have later on, clearly have lots of experts today in the room and lots of experts coming in the later sessions and as the Minister mentioned, this is the first initiative to bring in on one platform again, Corporate Governance in public organizations too, which is a large part of the Indian corporate entity, so thank you very much, Mr. Minister for staying on, thank you very much for your encouragement, Ms. Anand, Mr. Ueda, Mr. Carter, Ladies and Gentlemen, thank you.

Special Address:
Mr. Michael Carter, Country Director, World Bank

Secretary, Government of India, Ms. Komal, Mr. Munjal, Mr. Ueda, Ladies and Gentlemen, I am really delighted to have the opportunity to be with you this morning and I really appreciate having the change to make some brief remarks in this opening session.

I think the participating in this meeting this morning really shows the breadth of the recognition in India today that strong Corporate Governance is of the broadest possible benefit, not just a benefit to the shareholders but of benefit to all the other players in the corporate sector including employees and a benefit to society as a whole and I think it also reflects in many ways leading position that India has taken in the development of improved Corporate Governance. I thought, I would speak briefly about two aspects – background of the areas the bank has been involved in. First of all, to talk a bit about the work at the bank in the international context on the reports on the observance of standards and codes, the so called risk system of which Corporate Governance of course is one very important element and then to speak a bit more about some of our more recent work in India.

The risks we have done in conjunction with the IMF over recent years have been done in over forty countries including countries like Brazil, Russia, Korea and the Philippines. In India, we have supported two risks in 2000 and 2004 and they really provide a very useful overview of the reforms undertaken as well as the gaps that exist between Corporate Governance legal and regulatory frameworks and practice in a particular country. One important finding of the risks has been the growing awareness of the importance of Corporate Governance in almost all the countries assessed. Many have undertaken reforms and the first popular step has been the formulation of a code of Corporate Governance. India now has its own code.

There has been lot of interest in corporate governance in specific sectors such as banks, collective saving institutions, welfare providers and state owned companies. Corporate governance in these sectors has an added dimension of complexity because it has the public good dimension and as a bank, we are receiving increasing number of requests to work with countries to conduct corporate governance assessments focused on these sub-sectors, particularly in the area of state-owned enterprises and finally the corporate governance risk programme finds that the relevance of corporate governance for private and listed companies remains unclear in many countries. Efforts to be made by the bank and in the international community to bring some clarity on this account.

I should add that another area of concern which emerges from the risks worldwide is the slowness to perform across the board in the corporate judicial and courts systems which of course weakens the possibility for minority shareholders to seek appropriate redress.

The question of Board of Directors has been particular interest not just in India but in several countries because there have been scandals in some countries and I just want to spend a couple of moments on that.

Our risk assessment shows that many countries have worked to improve the accountability of Board Members but the results have been disappointing so far. Many countries have established institutes of directors and director training organizations but few of those have yet reached sustainability and many countries have worked to reform board composition to protect minority shareholders but implementation is still in its early phases. So I think, all of this suggests that while awareness of corporate governance is growing and while positive steps have begun in many countries, there is still a lot to be done and particularly translate the broad intentions into real results on the ground.

Let me now just say a few words about India and I thought, what I would do is, share some of our findings on the progress made in India as well as some of the challenges that impinge on the corporate governance framework based on the corporate governance risk assessments that we worked with the IMF to do on India and also doing the business reports that we are preparing now on annual basis.

I think that it is clear from this work that India is, if not the leading, certainly one of the leading emerging market countries in terms of progress with corporate governance reforms and I think that is an achievement which needs to be underlined and India really deserves much congratulation on that account, much has been accomplished but of course, much does remain to be done although many of the rules and regulations and laws are in place, enforcement and implementation remains, perhaps the key issue.

As India moves ahead to complete the transformations of its corporate governance framework, the community of domestic and international institutional investors will surely play a critical role. In co-operation with the Ministry of Company Affairs and the National Foundation of Corporate Governance, we carried out an in-depth study to assess the current role in participation institutional investors in India in corporate governance issues of their portfolio companies and benchmark this with global best practice and the findings and recommendations of this work we disseminated in late December last year and the feedback that we got from that, very useful conference and discussion is now being incorporated for the final publication of this report.

The 'doing business' reports that we prepare, review the regulations that enhance business activity and those that constrain it and one of the sections on this report every year is on protecting investors. It measures the protection available to minority shareholders against Director's mis-use of corporate assets for personal gain. The indicators distinguished three dimensions. The transparency of transactions, liability for self dealing and the shareholder ability to sue officers and directors for misconduct and there are industries for each of these three dimensions and they are calculated on a scale of 1 to 10 and together arrive at the strength of investor protection index. India scored 7 out of 10 on the disclosure index, 4 out of 10 on director liability and 7 on the ease of shareholder law suites, so its average score was 6 out of 10. Clearly, reforms carried out by the regulators and the Institute of Chartered Accountants of India was regarded as disclosure of information by Corporations, have resulted in substantial improvements in disclosure standards but as the score show, the extent of director liability is an area, which remains of some concern and I understand that there is going to be a session at this conference on

related party transactions, which no doubt will touch on some of the outstanding areas of concern and what could be done to address them.

Looking forward, we believe that corporate governance will specialize into intermediaries such as banks, collective investment schemes, institutional investors that invest in judiciary capacity and state-owned enterprises are areas where policy makers and international financial institutions will be called to focus their attention in the months to come. We recently developed a new diagnostic instrument to assess the corporate governance framework for specialized institutions and my colleagues will be sharing with you in the first session tomorrow some details and experiences in designing and developing this diagnostic tool, particularly in relation to state-owned enterprises and drawing on the OECD guidelines for state owned enterprises.

Finally, let me just remind you that the most important objective of corporate governance reform is of course to strengthen investor confidence. When corporate governance is weak, countries do pay a heavy price, the cost of capital is higher or capital itself is scarce because investors are not keen to invest in the country. India today is attracting a lot of foreign portfolio investment on the strength of the growing economy and of reforms. I think, to continue this momentum it is going to be really important that good corporate governance practices become deeply entrenched in the public and private sectors. It is going to be critical to foster the growth of saving institutions and expand welfare provisions such as pension funds, insurance companies and credit schemes. The population savings for old age or ill health will be at risk if investments in companies are not secure. Corporate governance does provide that checks and balances, controls and reporting relationships will foster society's confidence in its own domestic savings and investment market and as I said in the beginning, the development of strong corporate governance is also something, which I think, international experience is clearly showing, is a direct benefit to all players in the structure of companies themselves, so I very much hope that this conference is going to bring healthy discussion on some of these very important issues of India and I wish the conference every possible success. Thank you.