

Corporate governance

4.20 The central goal of securities markets, which is to obtain a widely dispersed ownership and trading in securities, innately induces conflicts of interest between the management team, which controls the firm, and the shareholders, who own the firm. Many policy efforts in recent years have been devoted towards improving the incentives of managers to maximise the interests of shareholders.

4.21 One important element of this is the market for corporate control. If a management team is producing poor cashflows for the owners, then this should induce competing management teams to try to take control of the assets of the firm. SEBI has steadily refined the institutional framework for these transactions under the 'takeover code'. In September 2002, SEBI amended the takeover code in many important new directions, reflecting the experience of the market for corporate control of recent years.

4.22 Table 4.9 summarises the growth of the takeover market, focusing on the value of open offers. In the first seven months of 2002-03 alone, the value of transactions, at Rs.4,940 crore, substantially exceeds the values seen in the preceding two full years.

4.23 Recent international events focused attention upon the difficulties in the auditor-company relationship. In response, a committee was set up to look into the issues relating to auditor-company relationship such as, rotation of auditors/auditing partners, restrictions on non-audit work/fee, procedures for appointment of auditors, determination of audit fees, the role of independent directors and disciplinary procedures for accountants. The Committee has made wide-ranging recommendations in

this regard and the Government would bring in the required legislative and other changes in implementing these, after widespread consultations.

4.24 Recognising the rising concerns about the levels of corporate governance and about ethical practices in the corporate sector, the government has undertaken active measures by promoting good corporate governance and enhancing the image of the Indian corporate sector. In this regard it has also decided to set up a *National Foundation for Corporate Governance* in collaboration with national level industry associations and professional bodies.

4.25 Improvements in disclosure are a central tool for containing the conflicts of interest between managers and shareholders. In order to foster improvements in disclosure, in July 2002, SEBI setup a system named *Electronic Data Information Filing and Retrieval* (EDIFAR). This offers a mechanism through which firms would electronically file mandatory disclosures to SEBI, and these documents would be available to individuals across the country over the Internet, with a near-zero delay. It is envisaged that in the future, disclosure would take place through company websites, exchange websites, and EDIFAR.

Table 4.9 : Open offers

(Rs. crore)

	Change in management	Consolidation of holding	Substantial acquisition	Total
2000-01	1,114	189	42	1,372
2001-02	1,756	1,815	39	3,610
April-October 2002	3,609	1,331	0.08	4,940

Source: SEBI