

Conference on Effective Corporate Governance

- Necessity for Trust

Risk Management Practices: Role of Independent Directors

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Cricket v/s Corporate Governance

Till about 30 years ago, there used to be umpires from the host country for only international cricket matches. Overseas teams, particularly those visiting the Indian subcontinent used to accuse unfair umpiring all the time.

To get rid of these accusations, the concept of neutral umpires for international matches was introduced. **Today, neutral umpires have most airmiles in the cricketing fraternity.**

However, the field umpires are still attributed wrong and unfair dismissals and their decisions are subject to review. Hence, **now we have the Third Umpire !!**

Now the times have evolved to **Technology and Tools** used by Third Umpire!





Benefits of a Third Umpire

Brings in **consistency**

Brings in **Objectivity**

Brings non-discretion

Audit ability



Leads to **Increased Viewership**

Corporate Governance



Set of relationships between a company's management, its board, its shareholders and other stakeholders



Structure through which the objectives of the company are set



Facilitation of effective monitoring



The inalienable rights of shareholders as the true owners of the corporation



Ethical business conduct

Benefits of Corporate Governance

Improve investor confidence

Ethical business conduct

Better economic performance leading to better P/E

Setting and achieving goals





Role of

Independent Directors

As Third Umpires



The Company
– The Body



The Management
– The Heart



The Board –
The Mind



Independent Director –
Human Conscious



Consistent



Auditable



Fair



Un-biased

Roles & Functions



Independent view



Scrutinizing the performance of management



Ensure integrity of financial information



Ensure Robustness of financial controls and risk management systems



Safeguard interests of all stakeholders



Review – Risk Management



Risk management policies and procedures designed



Ensured adequate risk awareness



Company's strategy in accordance with Codes of conduct and ethics



Prompt Escalation and mitigation steps



Regular compliance assessments



Disclosure of Red Flags



Duties of the Independent Directors

Monitor the company's strategy is consistent with the agreed-upon risk appetite and tolerance

Setting up qualitative, quantitative , aggregate or individual risk limits

Maintaining an effective risk appetite framework

Provide Board with comprehensive periodic reports on the company's risk status

Occurrence of the risk, potential impact of the occurrence

Accountabilities & roles under risk management structure

Adequacy of the risk management framework



Role of IDs in making Risk Management Functions more effective

01

Having a diverse skills, backgrounds and experiences on a Board

02

Benchmarking of Risk with those of peers and competitors

03

Robust, adequate and detailed disclosure system

Tools

New Technologies :
The umpire tools

Replays and reviews

Monitoring

Benchmarking of Risk with those of peers and competitors

Decision Review System

Review System

Independent Judgement

Hawk-eye view

Identify & Disclose

Red flags

Surveillance

Regulatory Tech

Constant surveillance and alerts mechanism to the Statutory authorities, Exchanges, etc.

Compliance

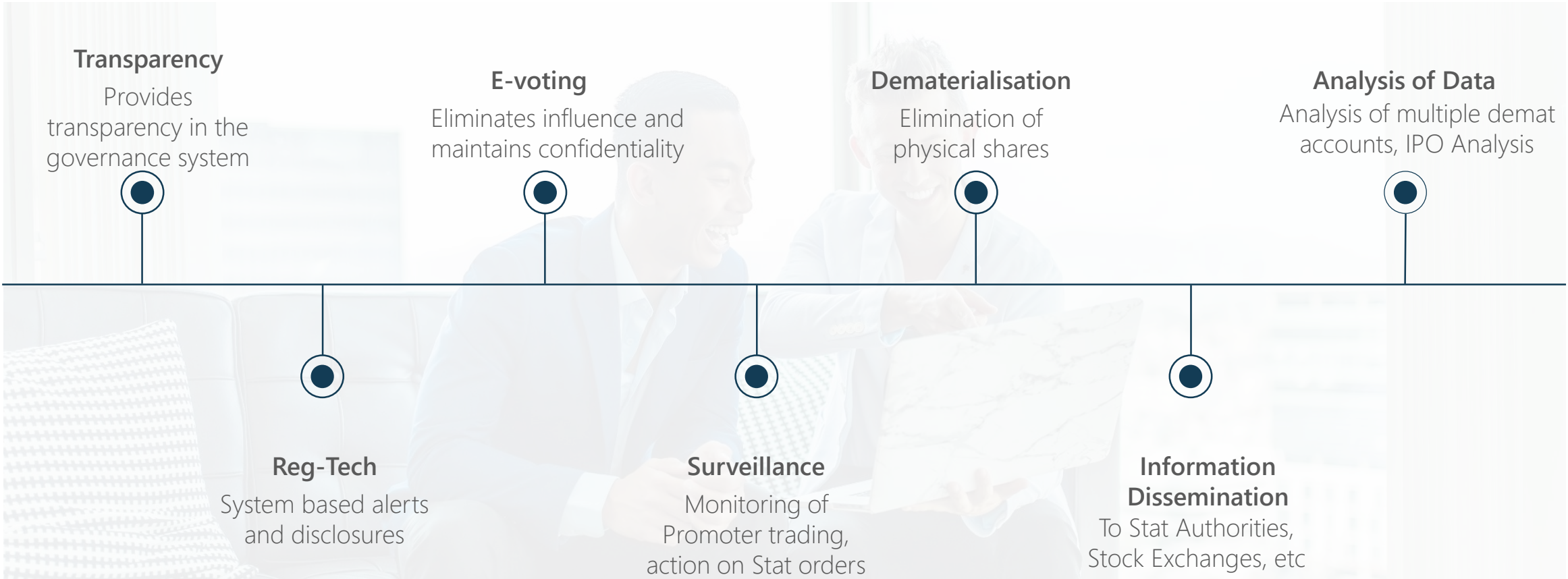
Compliance Monitoring

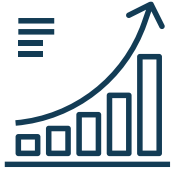
Ensuring compliance on a regular basis



Role of CDSL :

Providing tools to Independent Directors





Case studies



Case studies

Case – Punjab & Maharashtra Co-operative Bank, India

PMC Bank's collapse and the subsequent revelations have laid bare the extent of misgovernance in co-operative banks

Arrest of three independent Directors of Punjab & Maharashtra Bank - Economic Offences Wing (EOW) officer on the arrest had commented that the posts they held also put them in a position to know about the scam, and **they could have either prevented it or reported it to the authorities**



Case studies

Case – IL&FS

IL&FS has over Rs 91,000 crore in debt and is facing severe liquidity crisis.

The Ministry of Corporate Affairs (“MCA”), expanded the scope of its investigation to independent directors. Since prima facie the function of independent directors is to act as gatekeepers and detect irregularities, the MCA enlarged the scope of its investigation in order to understand the role of the former independent directors of IL&FS and the reasons for which they chose to not raise the red flag over various issues related to the corporate misfeasance.



Case - Satyam Computer Services, India

January 2009, Mr. B. Ramalinga Raju Chairman, Satyam Computer Services Ltd. confessed that he committed accounting fraud over several years

The Board and the shareholder were misled on the following:

- Overstatement of cash Balances, Non existent accrued interest , Understated liability
- Overstated debtors position

- Mr. B. Ramalinga Raju was arrested for fraud
- Auditors were fined USD 6 mn
- Stock price fell by over 80% on the date of confession
- Investors suffered a loss of Rs. 141.62 bn (USD 2.63 bn)
- Satyam Computer Services was sold in April 2009

Thank you