

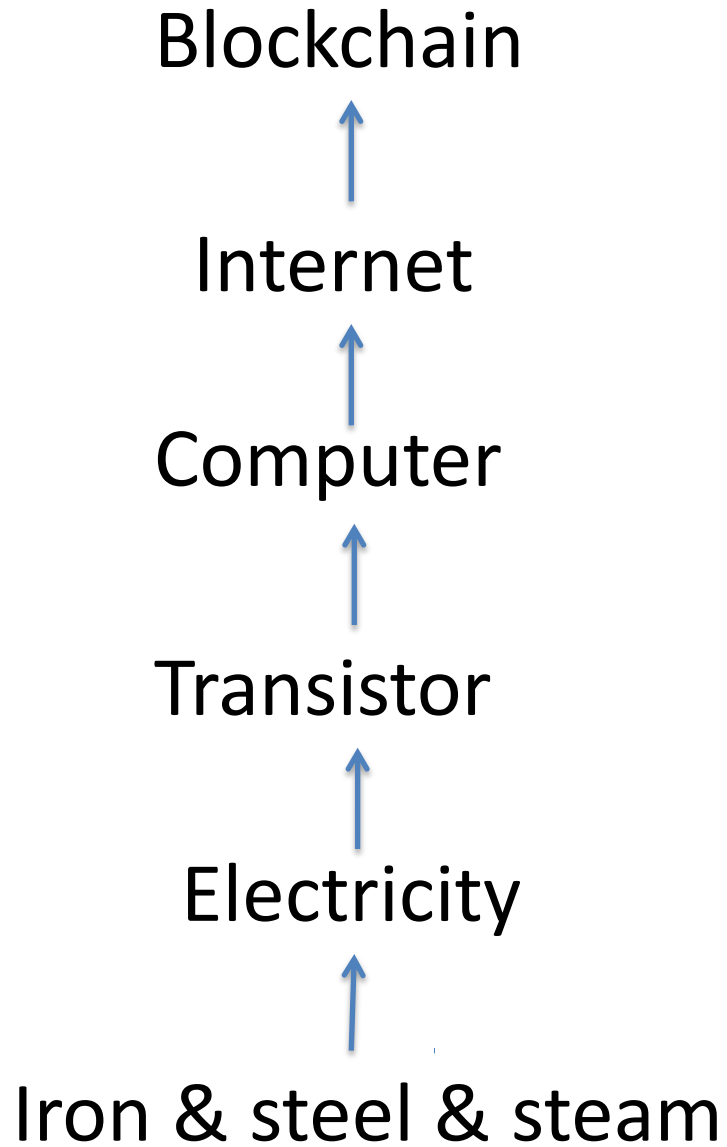
Since 1442, **ledgers** have been the foundational technology of **market capitalism**

By the late 20<sup>th</sup> century they had become **digitized**, but they remained **centralized**

Until 2008 ...

Bitcoin **blockchain**

- world's first **distributed ledger technology**



# What is blockchain (distributed ledger) as a technology?

- Crypto (private & public keys)
- Hash functions
- Merkel trees

# How does it work?

A distributed consensus engine

## Bitcoin blockchain

- Double spending & Consensus
- Miners, POW
- Blocks, into Chains
- Code = law

Public blockchains = governed by technical code

## Ethereum blockchain

- Smart contracts
- DAO
- DAC
- A world computer

Private blockchains = governed by technical code + legal code

# The techno-optimists

- A radically new **general purpose technology** that will drive **efficiency & productivity** gains as it is adopted (as everything moves 'to the blockchain')
- a fundamental transformation in the **infrastructure** and **architecture** of ledger technology that will reshape most all industries, through radical **disintermediation**
- This will drive creative destruction, reshaping business models, boundaries of firms and industries, and what governments do
- Who?
  - Don Tapscott (TED talk)
  - Jason Potts, Primavera de Filippi...
  - David Yermack
  - World Economic Forum
  - Walport Report (UK chief scientist)

# The skeptics

- Centralized ledgers are pretty good, & well adapted to modern industrial & regulatory environment
- Decentralized ledgers are expensive, untried, risky, faddish, unnecessary technology, that will replicate what already happens
- Actually risks recentralizing politically (The DAO) and creating monopoly computationally (Ethereum 'world computer')
- Who?
  - FT blog alphaville
  - Most central banks, regulators, many in the finance industry, ...

## Blockchains for corporate governance & finance: issues (David Yermack 2016)

1. Greater transparency of ownership
2. Improvement in liquidity
3. Impact on institutional investors & activists
4. Impact on managers
5. Impact on market microstructure
6. Voting in corporate elections
  - Accuracy
  - Empty voting
7. Real time accounting
  - Accountants & financial intermediaries
  - Earnings management
  - Related party transactions
8. Smart contracts
9. Governance of blockchain
  - (De Filipi & Loveluck 2016)
10. A new institution: firms, markets, blockchains
  - (Potts, et al 2016)

# Use cases

(World Economic Forum: 'The future of financial infrastructure')

- Global payments
- Insurance (& claims)
- Deposits & loans
- Trade finance
- Capital raising (coco bonds)
- Automated compliance
- Proxy voting
- Market provisioning
  - Asset re-hypothecation
  - Equity post-trade



# The revolutionary view

– the stock of economic institutions

## Before 2008

Entrepreneurs  
Firms  
Markets  
Networks  
Governments  
Nations

## After 2008

Entrepreneurs  
Firms  
Markets  
Networks  
Governments  
Nations  
Blockchains

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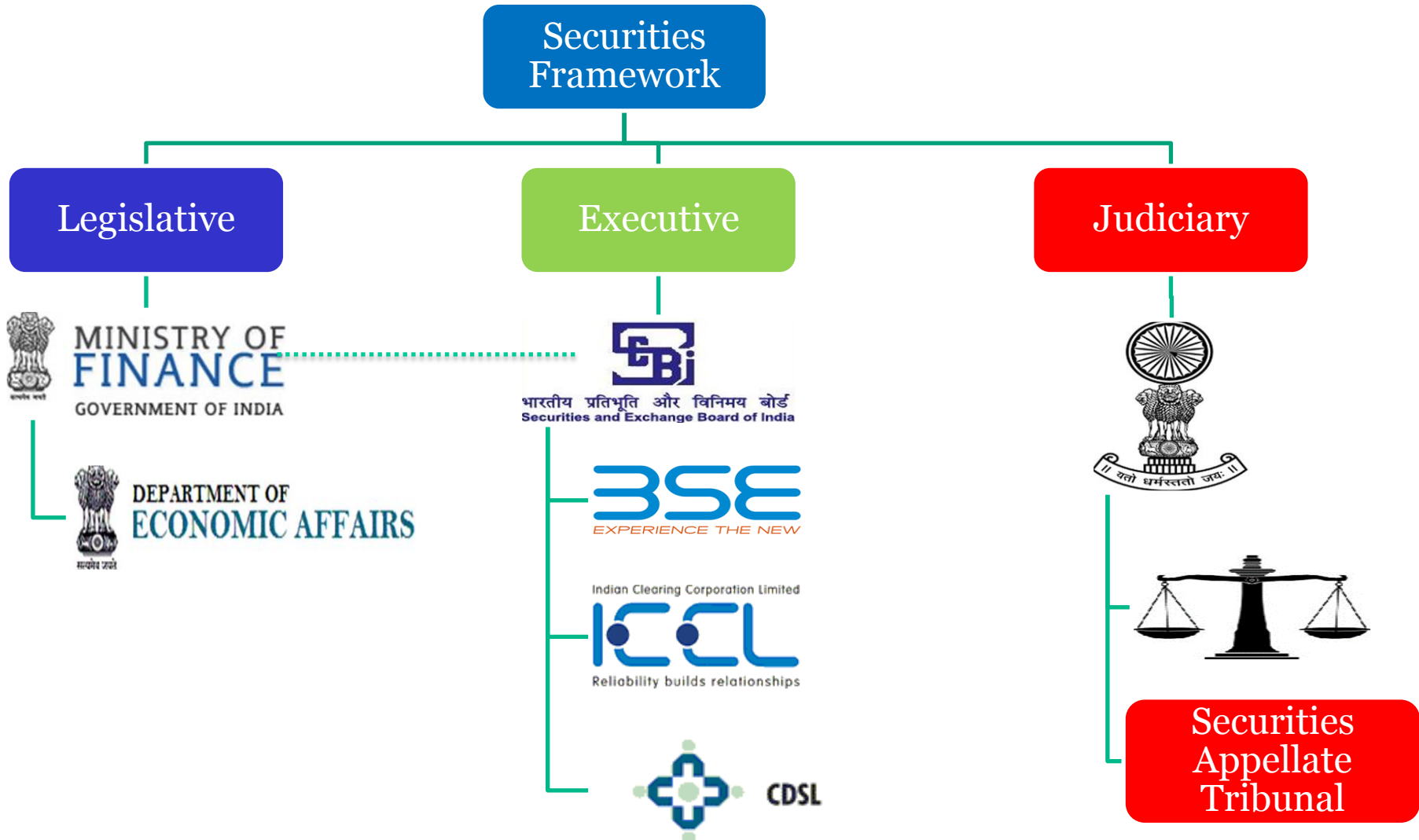
# ROLE OF STOCK EXCHANGES IN CORPORATE GOVERNANCE



*Khushro Bulsara*  
*BSE Ltd.*

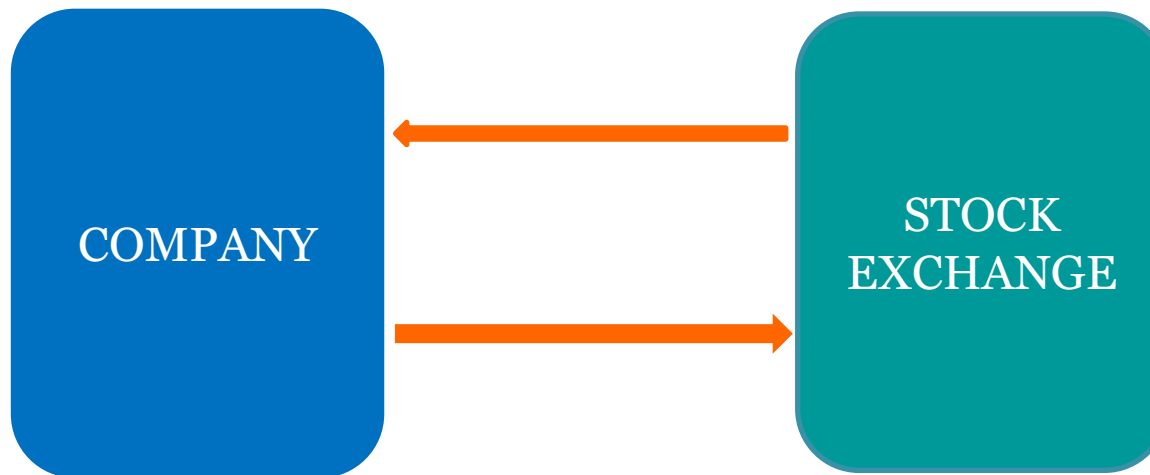
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# Securities Framework in India

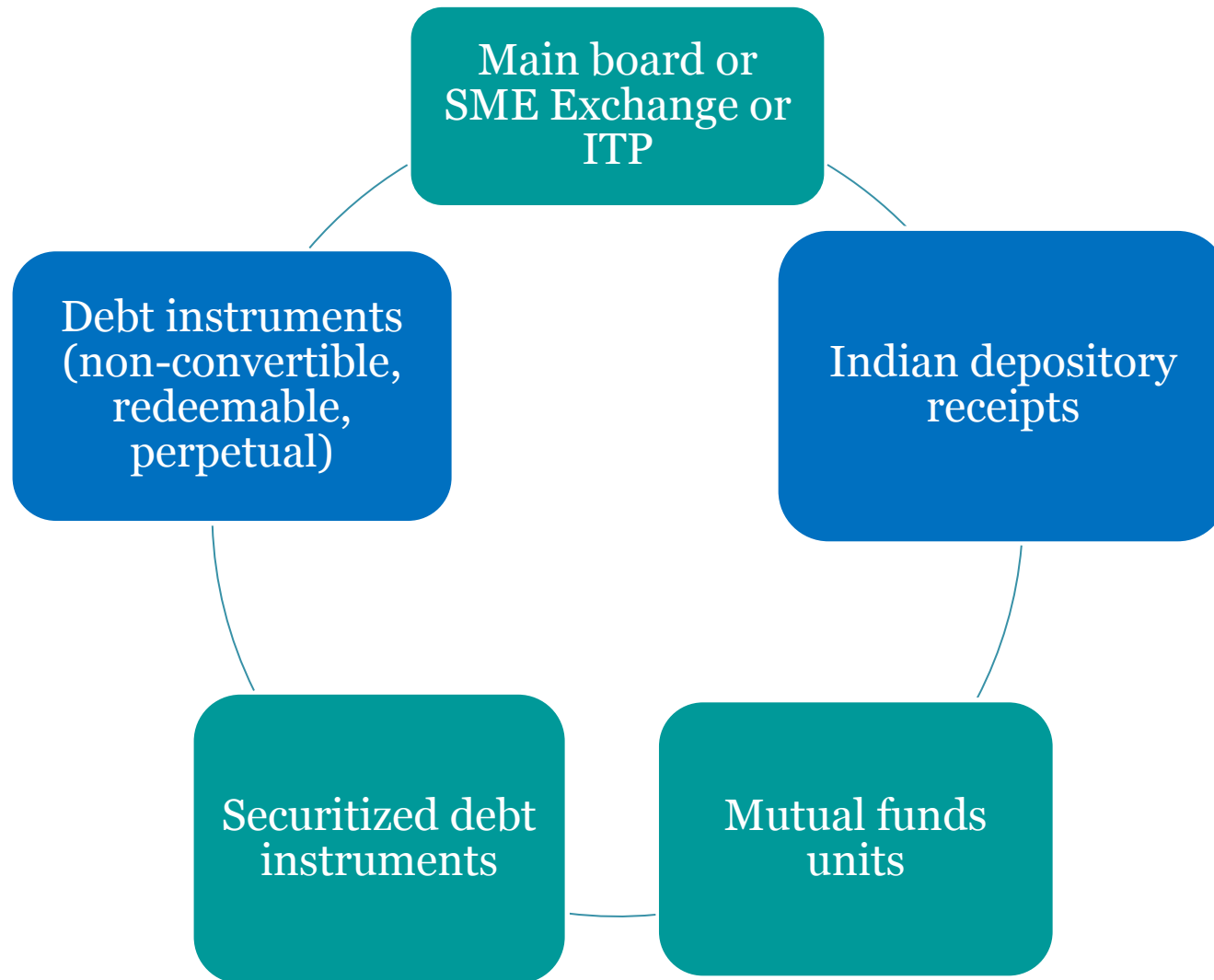


## Contractual relationship b/w Co. and Exchange

- Listing Regulations notified in Dec 2015 replacing erstwhile Listing Agreement.
- Now LA only a binding contract to abide by LR. Clauses of the LA now more binding with force of law as LR.
- Exchanges duties/ obligations also defined in new LR.



# Issuers governed by Listing Regulations, 2015



# Monitoring of disclosures

- Upon receipt of relevant intimations, filings, or any other submissions from the listed entity the stock exchange (SE) shall immediately disseminate the same on its website.
- SE to monitor compliances by the listed entity and also monitor adequacy/accuracy of the disclosures (SOP).
- SE to submit a report to SEBI with respect to compliance and adequacy/accuracy of the disclosures
- SE to put in place appropriate framework including adequate manpower and infrastructure as required



## Monitoring of disclosures (Reg 30)

- Listed companies are required to inform the Exchange about all the material events including litigation and new agreements.
- Exchange monitors information in media for news related to Listed Entities.
- The Exchanges co-ordinate for uniformity in raising queries to the companies to avoid regulatory arbitrage.
- Clarifications sought from companies and replies received are disseminated on the Exchange website for public information.
- A Weekly Report is filed with SEBI for information.



## Monitoring of few Regulations (cont'd)...

### Corporate Governance

- Regulation 17-27
  - Composition of Board,
  - Report on Corporate Governance
  - Details about Audit Committee

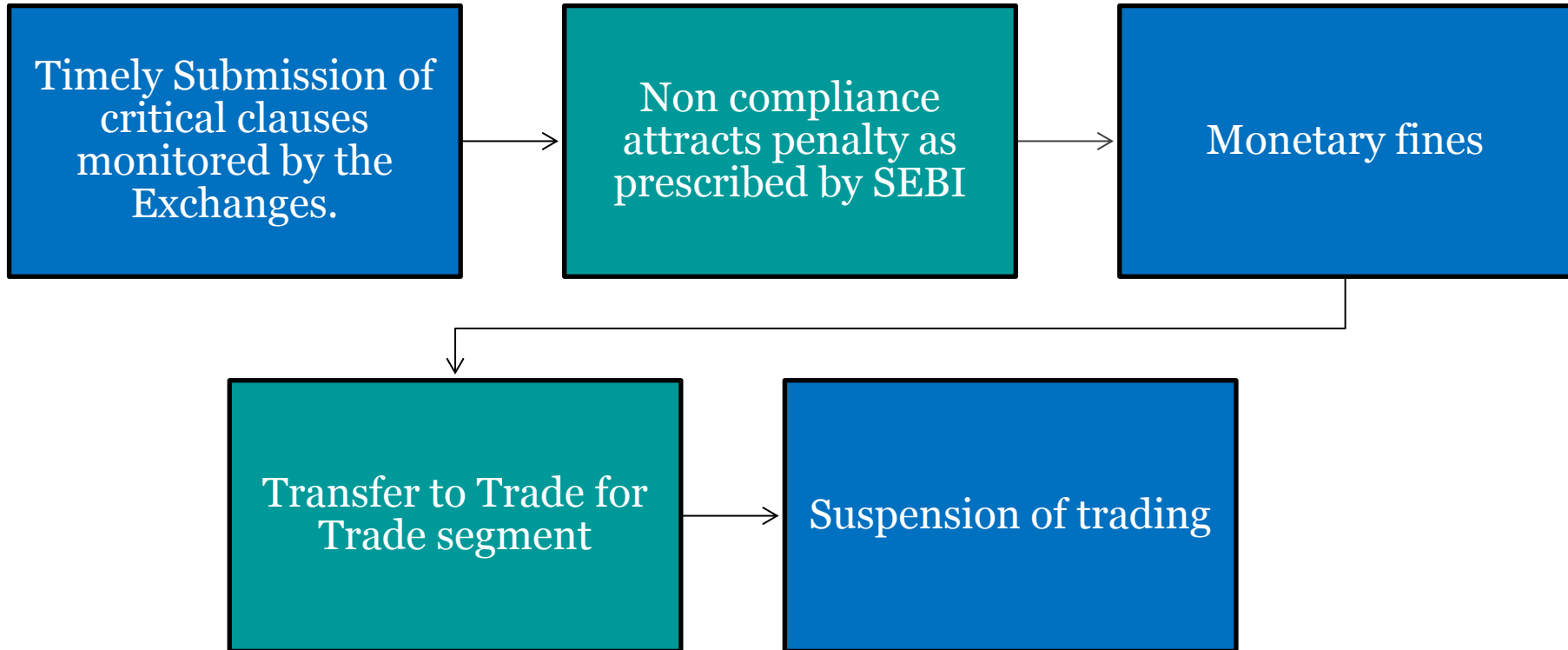
### Financials

- Regulation 33 – Quarterly Financial Results
- Regulation 34 – Annual Report with Form A/  
Form B



# Penal Action against Listed entities

Standard Operating Procedure for Suspension and Revocation (SOP) prescribed by SEBI



# Monetary Fines for Non submission of Corporate Governance Reports

Regulations of Listing Regulations	Due date of Submission as per Listing Regulations	Commencement of Levy of Penalty	Fine payable for 1st non-compliance	Fine Payable each subsequent and consecutive non-compliance
<b>Regulation 27</b> Non-submission of the Corporate Governance Report	Within 15 days from the end of quarter	16 <sup>th</sup> day from end of quarter	Rs. 1000 per day till the date of compliance	Rs. 2000 per day till the date of compliance

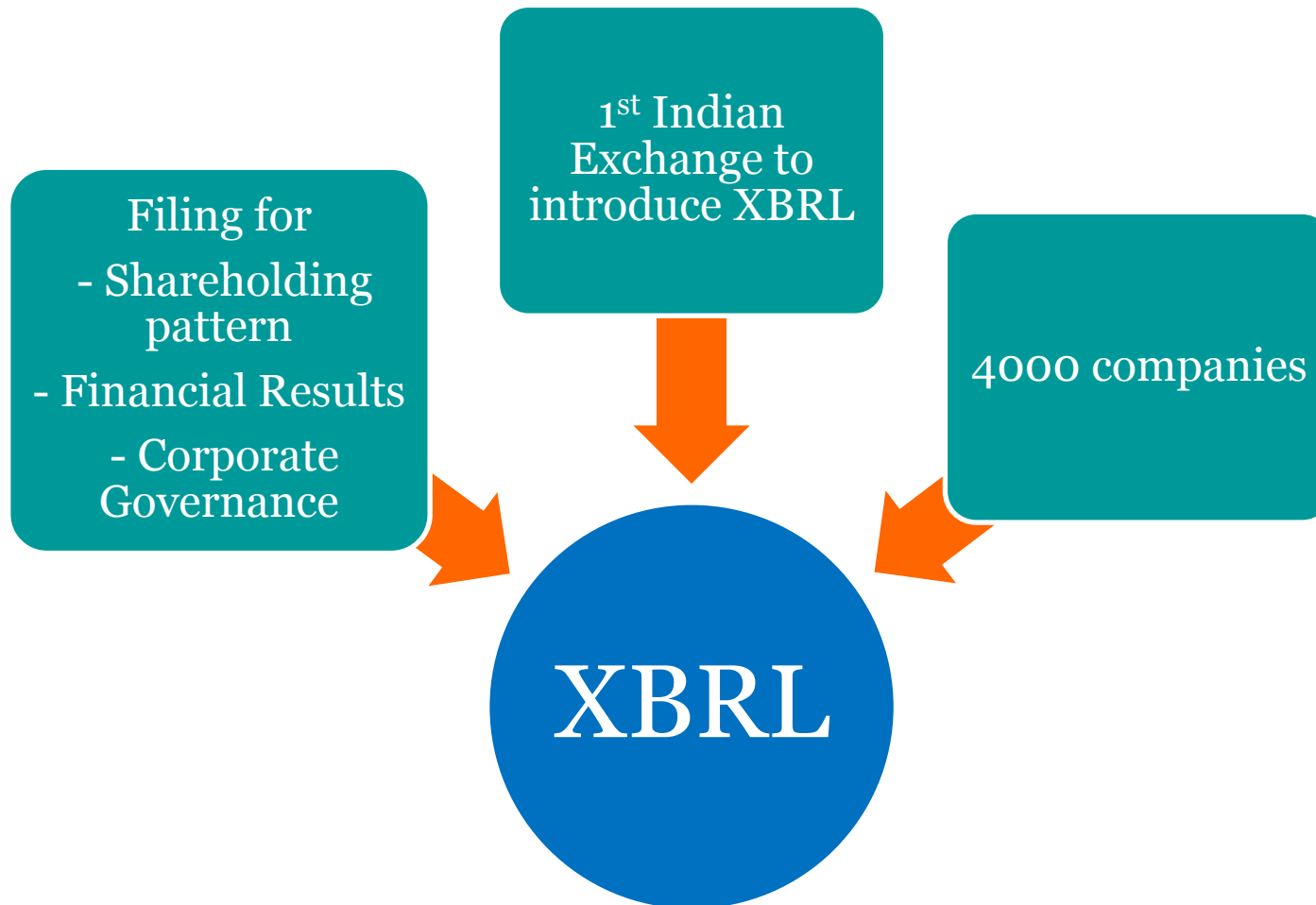
All penalties recovered are credited to Exchanges' Investor Protection Fund ☹

# Exchanges as *'enablers'* not only enforcers



## Introduction of XBRL by BSE

With a view to making reporting more accurate and more efficient and to monitor the submissions effectively



## XBRL....(Cont'd)..

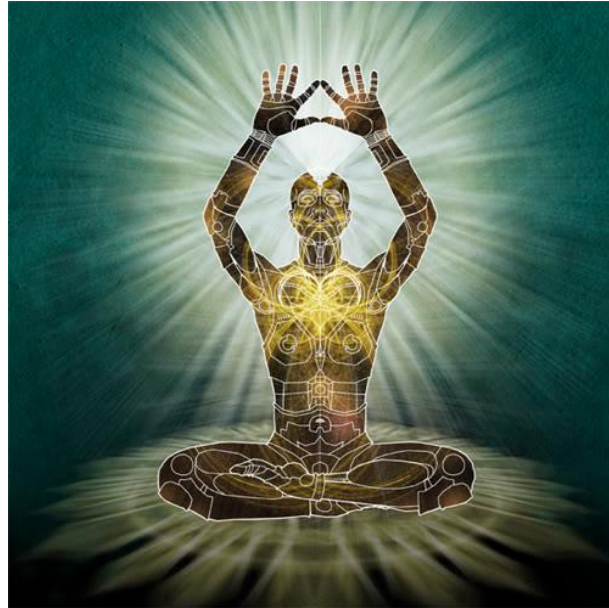
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Based on the overwhelming response from the listed entities, BSE has made filing of Corporate Governance and Shareholding Pattern reports mandatory through XBRL mode.

The introduction of XBRL has enabled the Exchange to monitor the filings in a systematic manner – make them easier, faster, error free

The XBRL taxonomy has been disseminated on the Exchange website for the benefit of listed cos. desirous of developing their own software for generating XBRL files.

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# **Corporate Governance** **- a journey *not* a destination**

## Exchanges responsibility

- Regulations and laws require compliance from listed entities
- Exchanges bound to monitor compliance
- Compliance v/s Governance
- Exchanges have a responsibility to ENABLE governance
  - Conduct awareness seminars for professionals (LODR)
  - Educate investors about their rights (IPF programs & offices)
  - Encourage investment in capital market by spreading knowledge and confidence (educative game shows)
  - Encourage companies to have better governance by using the Corporate Governance Scorecard (BSE-IFC initiative with IiAS)
- Encourage listed entities to look at long term good v/s short term achieving compliance – tick box approach
- Compulsory delisting – clean up of long non-compliant companies with severe penal consequences for promoters/directors



## Launch of a Corporate Governance Scorecard

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BSE in collaboration with IFC launched the Corporate Governance Scorecard on February 4, 2016.

The questionnaire and methodology are jointly prepared by BSE, IFC along with our partner - IiAS.

CG Scorecard would help companies to benchmark themselves against International Standards of Corporate Governance as well as providing investors a standardized measure of the Corporate Governance status of any company.

The Exchange has conducted public consultations workshops with IFC to explain the process and methodology of adoption of CG Scorecard

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## Corporate Governance Scorecard...(Cont'd)..

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BSE conducted events for Corporates to highlight the benefits of adopting CG Scorecard. Demonstrated test results at a Workshop.

Certain Listed Entities have initiated the process for self evaluation using the CG Scorecard

Information on CG Scorecard and methodology disseminated on the Exchange website for the information of the investors

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## Case Study - I

### Background

- The Top Management of a leading Conglomerate prior to the listing of the subsidiaries issued stock options at face value to some of the senior officials.

### Action taken by company / KMPs

- Maximum stock options were offered to the Management prior to the listing of the subsidiaries.
- The timing of the issuance of the stock options (between filing of DRHP and RHP

## Case Study – I....(Cont'd)..

### Impact

- As the companies are listed, the notional gains calculated amount to over Rs. 300 crores (~46 mn USD).

### Discussion Point

- Would this be considered as a good Corporate Governance practice?

## Case Study - II

### Background

- A merger of two financial services similar businesses, both companies are subsidiaries of listed entities.

### Action taken by company / KMPs

- Since there is a merger and not a takeover, the Promoters of the acquired company were offered “non-compete fees”.

## Case Study – II....(Cont'd)..

### Impact

- The non-compete fees are to be paid after the merger (by the merged entity).

### Discussion Point

- Since the promoters of the acquired business are going to remain invested in the merged entity, technically other investors would be paying non-compete fees to an existing shareholder.
- Would this be considered as Good Corporate Governance practice?



# Thank You

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# e-Voting: India's experience

OECD Round Table: Seoul Korea

October 2016



# Voice and show of hands.....





e-Voting enables the shareholders to vote electronically. Shareholders can vote on resolutions proposed by companies requiring ballot without having the necessity to be physically present at the meeting.

## Traditional

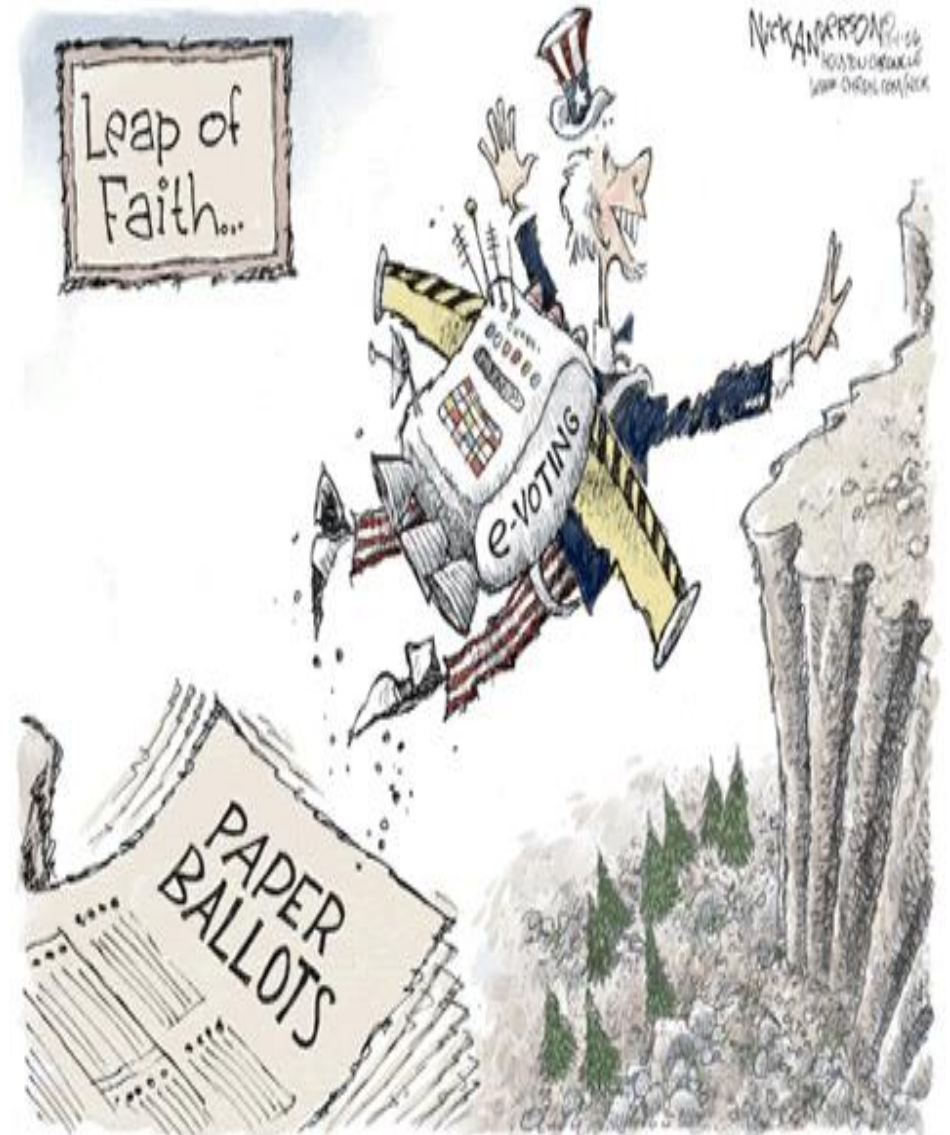
- **Takes time ...**
- **.... and human resources**
- **Hard to track who voted and who did not**
- **Does not give an instant Poll result**

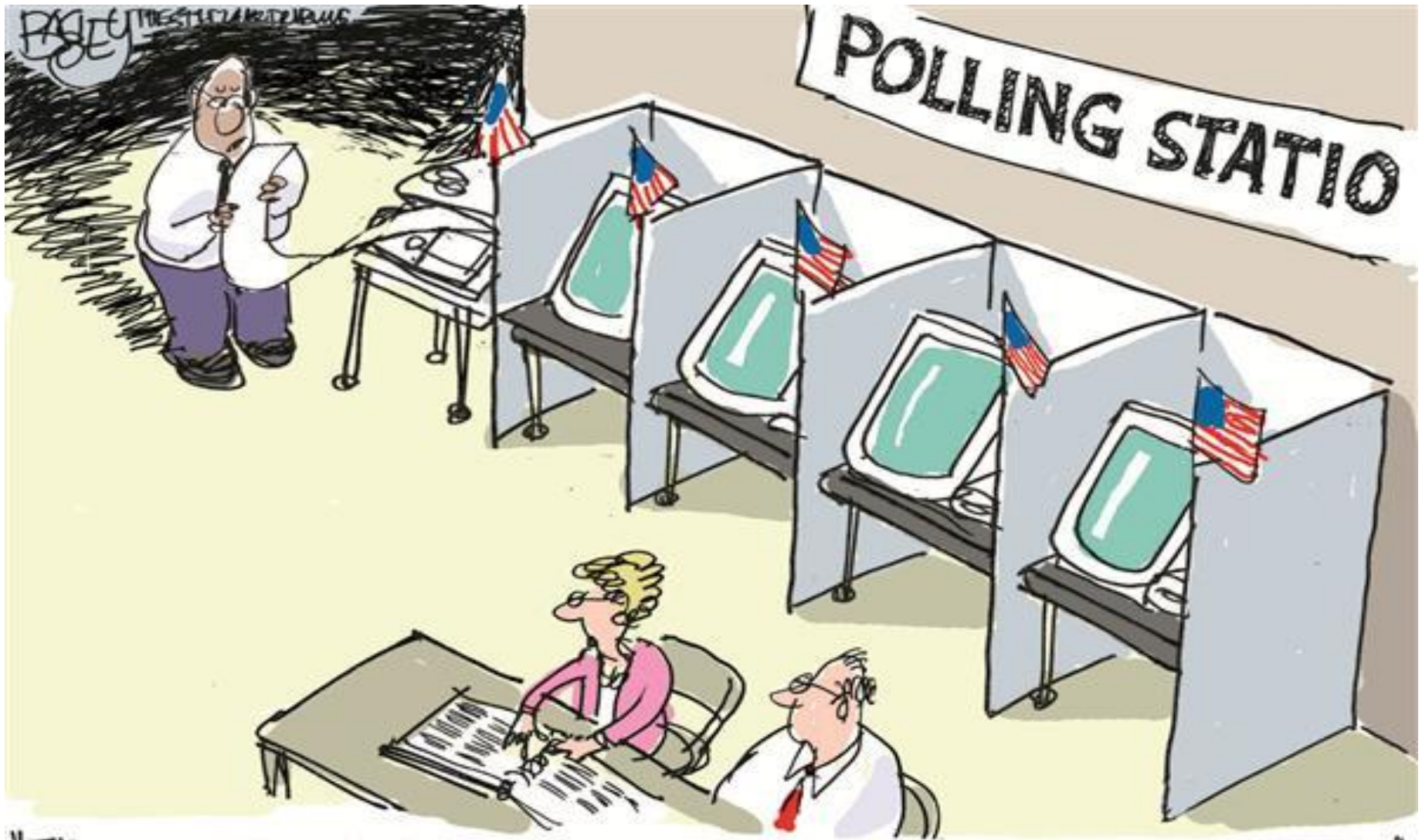


## E-Voting

- **Substantial reduction in administration cost**
  - Postal correspondence
  - Verification of signatures
  - Counting of votes
  - Storing of physical ballot papers
- **Accuracy in counting of votes**
- **Elimination of postal ballots getting lost in-transit**
- **Paperless mode of casting vote**
- **Sufficient time for shareholders to vote till the end of voting cycle**

- **Launched in stages**
  - Postal Ballots
    - First 100 companies, then extended to 500 companies
- **Companies Act 2013**
  - All listed companies
  - Those with more than 1000 shareholders





"THE ELECTRONIC VOTING WENT JUST FINE—SUPER MARIO TROUNCED DONKEY KONG."

# The electronic voting has gone just fine

E-Voting Provider	# of companies		
	A	B	C
FY 2012-13	44	na	na
FY 2013-14	83	172	na
FY 2014-15	3079	1672	na
FY 2015-16	3247	na	na
Apr-Sep 2016	3525	na	na

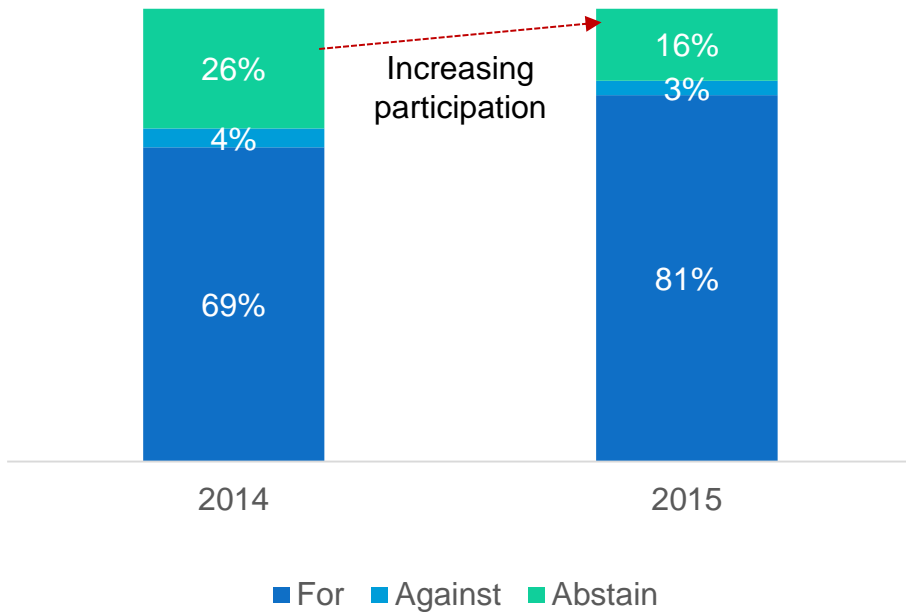
Source: liAS, Market

Jan-June	Companies	Resolutions	Total Voting		Institutional Voting	
			Average	Median	Average	Median
2014	82	421	67%	74%	57%	57%
2015	184	842	68%	71%	61%	65%
2016	150	519	72%	76%	72%	77%

Source: liASAdrian.com

- **Clearly greater participation**
  - Resolutions getting defeated
    - Over 40 resolutions have been defeated in the last 24 months (vs evidence of three in the decade before)
  - Enables other service providers to 'piggy-back'
- **Do shareholder meetings lose their relevance?**

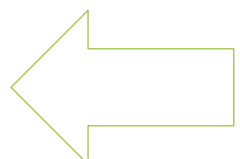
## Higher MF participation



	CY2014	CY2015
Number of resolutions	2,738	1,999
No of votes cast	37,351	30,008

Data for resolutions presented by BSE 200 companies

Source: IiAS



## Resolutions defeated

Resolution category	Count
Related party transactions	15
Director appointments	15
Remuneration and compensation	4
Borrowing	3
Alterations to Charter Documents	2
Inter-Corporate Transactions	1
Dividends	1
ESOPs	2
Mergers, acquisitions, and amalgamations	1
<b>Grand total</b>	<b>44</b>

Data for resolutions presented by companies under IiAS coverage



# IiAS platform links to other e-Voting platforms



## Upcoming Meetings: Calendar View

Tabular View | Calendar View

View By: Meeting Date | E-Voting End Date

September 2016

MON	TUE	WED	THU	FRI	SAT	SUN
			<u>1</u>	2	3	4
5	6	<u>7</u>	<u>8</u>	9	10	<u>11</u>
<u>12</u>	13	14	15	<u>16</u>	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

**September Meetings:** [VIEW ALL](#)

- 10:30 1 Sep 2016 | BOSCH LTD. **AGM**
- 11:00 1 Sep 2016 | RELIANCE INDUSTRIES LTD. **AGM**
- 05:30 7 Sep 2016 | VEDANTA LTD. **PB**
- 10:00 8 Sep 2016 | OIL & NATURAL GAS CORPN. LTD. **AGM**

## Voting "Scoreboard" collates all votes

**IiAS Voting Management System**

Home | Portfolio | Voting Report | Users | Settings | Past Meetings | IiAS Policies | Contact Us

**KOTAK MAHINDRA BANK LTD.** | Type: Postal Ballot | Date: 31-Aug-2016 | AUM: 0.000% | Equity Capital: 0.000% | Vote

**E-Voting End Date: 31-Aug-2016 05:00 PM**

Sr. No.	Description of resolution	Recommendation By Mgt/Shareholders	For:Against:Abstain
1	To approve issuance of unsecured, redeemable non-convertible debentures/ bonds on a private placement basis for an amount upto Rs 50.0 bn	Management	<b>2 : 0 : 0</b>

[Download PDF](#) | [Download Excel](#)

## Records Voting Rationale

Voting Report | Users | Settings | Past Meetings | IiAS Policies | Contact Us

**KOTAK MAHINDRA BANK LTD.**

AUM: 0.000% | Equity Capital: 0.000% | [View Annual Report](#) | [Notice](#) | [IiAS Recommendation](#) | [Past Voting](#) | E-Voting Start Date: 03-Aug-2016 | E-Voting End Date: 31-Aug-2016

Meeting Alert | Analyst Vote | Approver Vote | Final Vote

Description of resolution	IiAS View	Vote	Proposal By	Rationale	Int
To approve issuance of unsecured, redeemable non-convertible debentures/ bonds on a private placement basis for an amount upto Rs 50.0 bn	For	<input checked="" type="radio"/> For <input type="radio"/> Against <input type="radio"/> Abstain	Management	These debt instruments issued will be within the Bank's overall borrowing limits (Rs. 500.0 bn approved in the AGM of 2015). Kotak Bank's Certificate of Deposits are rated CRISIL A1+, and long term ratings are CRISIL AAA/Stable, IND AAA/Stable and ICRA AAA/Stable.	

## System-generated regulatory filings

Meeting Type	Proposal By	Proposal's Description	Management Recommendation	Vote For/Against/Abstain	Rationale
AGM	Management	Adoption of standalone and consolidated financial statements for the year ended 31 March 2016	For	Abstain	We believe that a comprehensive review of the financials of a company is a critical exercise which often requires first-hand information and proper due diligence. We do not provide voting recommendations on resolutions for adoption of financial statements, given the limited time between receipt of the annual report and the shareholder meeting, but provide analysis of critical ratios.
AGM	Management	Declare dividend of Rs. 18.25 per share (FV Rs.2)	For	For	The dividend per share has increased from Rs. 16.25 to Rs. 18.25 in FY16. Consequently, the payout ratio has improved from 32.5% to 34.6%.
AGM	Management	Appoint Ms. Sunita Sharma as Non-Executive Non-Independent Director	For	For	Ms. Sunita Sharma is the nominee of Life Insurance Company of India (LIC) on the board. Her appointment is in line with the statutory requirements.
AGM	Management	Reappoint S.N Subrahmanyam as Director	For	For	S. N Subrahmanyam is the Deputy Managing Director of the company. His reappointment is in line with the statutory requirements.
AGM	Management	Reappoint A.M Naik as Director	For	For	A. M Naik is the Group Executive Chairperson of L&T. His reappointment is in line with the statutory requirements.



markets  $\cap$  governance