

# Current laws are adequate to handle this

The episode has brought to fore the blatant violation of the spirit of corporate and securities laws

What transpired at Satyam in the past couple of weeks, which culminated with the confession by Ramalinga Raju regarding serious fudging of financials, has brought to fore the blatant violation of the spirit of the Indian corporate and securities laws, and caused the investors and regulators to examine more closely the corporate governance standards followed by India Inc.



**comment**  
 by Vaidhyanadhan Iyer

**Are the current laws adequate?**

Answer could be 'Yes'. Layers of

checks and balances to prevent and detect such frauds at an early stage have been prescribed by both corporate laws and the governance norms, and it includes (i) appointment of independent directors who are expected to question the rationale for every corporate decision; (ii) a robust internal audit system to evaluate and improve the risk management, internal controls, financial reporting and governance processes; (iii) an audit committee to independently scrutinise the financials before submission to the Board and work with the statutory and internal auditors to prevent such scams; (iv) Independent evaluation of the reporting process by the CEO / CFO of the company; and most importantly (v) Detailed audit of the financial statements and processes by the statutory auditors.

Despite the said governance norms being fairly robust in India,

**American example**

Unlike Chapter 11 bankruptcy in the US, which allows the companies to reorganise and operate as a going concern, no similar provision exists under the Indian laws. Liquidation, which is a long drawn process in India, would have adverse consequences on stakeholders' interests



the entire Satyam saga exposes serious shortfalls in implementation of those norms by the corporate. An early detection at even one of the aforesaid stages and a more proactive role by the directors could have prevented this horrific episode.

**Road ahead for Satyam**

While this situation indeed enhances the possibility of a merger or takeover of Satyam, a more active

role is warranted from the government to revive the battered confidence of the stakeholders.

This could include directing special audit of Satyam under Section 233A to clean up the financials and possible reconstitution of the board till the end of crisis. However, this will not absolve the directors and the auditors from their liabilities under the corporate and securities laws.

Further, since Satyam is listed New York Stock Exchange, it could be possible class action suits under the US laws.

Unlike Chapter 11 bankruptcy in the US, which allows the companies to reorganise and operate as a going concern, subject to jurisdiction of the court, no similar provision exists under the Indian laws. Liquidation, which is a long drawn process in India, would have adverse consequences on the interests of stakeholders and hence may not be a feasible option.

In an economy which is already experiencing a slowdown, such corporate scandals could further dampen the spirits of the foreign investors. While the Satyam episode definitely puts India Inc in a tight spot, it mainly to be seen as to how Indian companies enhance their standards to ensure compliance with not just the letter but also the spirit of corporate governance.

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