Since the economic reforms of 1991, the Indian government and companies have sought to attract the attention of international investors. As part of its effort to compete in the global marketplace, where shareholder rights issues are becoming increasingly important to investors, India drafted its first code of best practice on April 19, 1997. The draft report, entitled Desirable Corporate Governance in India, was issued by the Confederation of Indian Industry (CII) and prepared by a 12-member group headed by Rahul Bajaj.

The Bajaj Report, as the CII report is called, is similar to codes of best practice in other countries, calling for the establishment of audit committees, a minimum number of nonexecutive directors appointed to boards, and greater disclosure from management on business and accounting issues. The report makes several recommendations that surpass the scope of other codes, such as director attendance requirements, limitations on the number of board seats held by directors, and requiring that boards be responsible for a specific agenda of topics.

The code fails to cover several other governance issues. It does not define "independence," nor does it require companies to disclose information regarding relationships between companies and their outside directors. While the code calls for a minimum number of board members to be nonexecutives, it does not recommend that a majority of directors be unrelated. The code also does not advocate the separation of the CEO and chairman positions. Executive pay and the establishment of a remuneration committee are not addressed, although the code does recommend stock options and incentive compensation for nonexecutive directors. The Bajaj Report recommends that consolidation of group accounts should remain optional, in keeping with Indian business practice and bucking the international trend toward consolidated financial statements.

The Bajaj Report's achievement in recognizing the need for the establishment of audit committees, a minimum number of nonexecutive directors appointed to boards, and greater disclosure on management business and accounting issues was taken a step further when the Securities and Exchange Board of India (SEBI) convened a committee on corporate governance, also known as the Kumar Mangalam Birla Committee, in an attempt to improve the standard of corporate governance in India. SEBI's faith in corporate governance as a crucial instrument of investor protection placed it as a top priority on SEBI's agenda. The committee comprised top management experts, representatives of investor associations, members of the Chamber of Commerce, and members of stock exchanges, together with SEBI members. Under the chairmanship of SEBI board member Kumar Mangalam Birla, the committee also made recommendations regarding board composition, audit committees, compensation committees, and shareholders committees and recommended that certain governance-related information be disclosed in annual reports. Furthermore, issues such as director independence and the formation of remuneration committees, which were unaddressed by the Bajaj Report, are discussed and clarified under the Report of the Kumar Mangalam Birla Committee on Corporate Governance. SEBI adopted many of the recommendations set forth by the committee and subsequently implemented mandatory governance disclosure requirements. These recommendations were applied through an amendment to Clause 49 of the listing agreement of stock exchanges in India. In accordance with the listing agreement, most companies, depending on their size, have been required to adhere to certain governance disclosure requirements since March 31, 2001.

Several other initiatives have been launched since that time. The Department of Company Affairs (DCA) established the Naresh Chandra committee to examine financial and non-financial disclosure, independent auditing, and board oversight of management. In addition, SEBI established the Narayana Murthy Committee to review Clause 49 and suggest improvements. Both committees published their findings in a report in 2002.

Most notably, SEBI revised Clause 49 of the listing requirements in October of 2004. The most substantial change is that the boards of listed companies must now comprise at least 50 percent nonexecutive directors, where at least one-third of the board should be independent if the chairman is a nonexecutive, and at least half of the board should be independent if the chairman is an executive. This is especially significant for government-controlled entities, where government nominees on the boards may not be counted as independent directors. Another change requires audit committees to comprise at least three directors, two-thirds of whom must be independent. Finally, compensation disclosure has improved – in particular, stock option details. In March of 2005, SEBI extended the deadline for companies to comply with the new requirements until Dec. 31, 2005, but has threatened penalties on those companies that do not comply by that date. Non-compliance could result in imprisonment of up to ten years and/or a fine of up to INR 250 million ($5.7 million). The companies struggling most with compliance are the PSU's, which are partially government owned. These companies have the highest burden of finding additional independent directors, as, according to the listing rules, government nominees may not be classified as independent directors. The BSE, NSE, and CII have launched a joint effort to assist Indian companies in finding independent directors, by creating a Web site, http://www.primedirectors.com/, where qualified candidates may post their profiles and interested companies may search the listings.

India's demonstrable efforts in improving corporate governance standards and practices put it ahead of many emerging markets. The adoption of better disclosure practices and sound governance practices is expected to attract more foreign investment and improve the country's competitive position. When the draft version of the Bajaj Report was first released, the CII held a governance forum of top industry leaders, market regulators, and investors. At the forum, debates focused on the role of governance in India, particularly as it related to the United Kingdom. While most participants agreed that there is a need for a greater level of