1. **Subject Name: Business Ethics (BBAA204GE2)**
2. **Semester / Year: Second (Semester II)**
3. **Name of the Teacher: Pinaki Dey**
4. **Name of the topic: Accounting Standards and Corporate Governance, Corporate Disclosure, Insider Trading.**

Accounting Standards and Corporate Governance:

As per Section 210 of the Indian Companies Act 1956, the Board of Directors of every company is required in every annual general meeting held under Section 166

1. A Balance Sheet as at the end of the accounting period,
2. A Profit and Loss account for that period. The accounting periods is termed as 'financial year' in legal parlance.

It has to meet two conditions:

a. Be strictly as per Companies Act
b. The statements should be made and presented as per Generally Accepted Accounting Principles and practices (GAAP).

Institute of Chartered Accountants of India (ICAI) has made the details and specified various status like Indian Companies Act 1956. In the countries like US and UK, GAAP are slightly tough. Indian companies who desire to raise funds overseas have to follow US GAAP or International GAAP.

Without accounts in GAAP it is not possible to go to capital markets. Corporate governance is helped immensely by adopting uniform accounting standards and end of year date which is now 31st of March each year in India.

With accounting standards we have:

a. Fair picture of finance position of a company.
b. Little or no margin for manipulation.
c. Comparison is made possible.
d. Once can clearly identify weak areas.

e. Auditing is made easier.
f. These are policy documents that will have impact on measurement, presentation, bench marking.

Corporate disclosure:

Corporate disclosure can be defined as the communication of information by people inside the public firms towards people outside. The main aim of corporate disclosure is "to communicate firm performance and governance to outside investors. This communication is not only called for by shareholders and investors to analyze the relevance of their investments, but also by the other stakeholders, particularly for information about corporate social and environmental policies.

Disclosure takes different forms. The first one is financial reporting, essentially financial statements whose contents are defined by accounting standards (for instance the International Financial Reporting Standards). As compliance with good practice in corporate governance is now required, reporting also concerns governance (*for instance, the "comply or explain" principle has been enforced since 2008 in the European Union*). Reporting must respect specific rules, even specific formats, restricting the discretion of managers, and allowing stakeholders a better understanding of information. Besides reporting, managers also communicate information in a less formal way, for instance by press conferences, by announcement on websites and so on

Insider Trading:

Trading by an insider of a company in the shares of a company is not a violation of law. In fact trading by insiders, including directors, officers and employees of the company in the shares of their own company is a positive feature which companies encourage because it aligns its interests with those of the insiders.

What is prohibited is the trading by an insider in the stock of the company on the basis of non public information to the exclusion of others. Insider trading thus defined is one of the most violent crimes on the faith of fair dealing in the market.

If insider trading is allowed unchecked in the capital markets, persons with insider information will have a consistent edge in trades executed with such information and those without the information will be consistent losers on the market. The latter category of people, which is of course the vast majority of investors, would slowly realize the loser game they are playing and would believe that all transactions are thus biased against them. Slowly the typical investor would desert the market, leaving important functions of the stock market like capital-raising in the dust.

Levels of prohibition in other countries:

There have been several arguments in favor of allowing insider trading for purposes of efficiency and as a means to reward management and directors of a company. Certain countries, like Japan, do not have a prohibition on insider trading. Certain countries, like the US, do not automatically prohibit trading on the basis of *possession* of inside information. There must be a fiduciary relationship of the insider with the company before the person can be sanctioned. Indian regulations contain more blanket provisions (and cast a wider net) against trading by any insider.

Definitions:

According to the SEBI regulations on Prohibition of Insider Trading, 1992 "the regulations":

"*insider*" means any person who, is or was connected with the company or is deemed to have been connected with the company and who is reasonably expected to have access, connection, to unpublished price sensitive information in respect of securities of a company, or who has received or has had access to such unpublished price sensitive information;

'*price sensitive information'* means any information which relates directly or indirectly to a company and which if published is likely to materially affect the price of securities of company;

The Prohibition:

No insider shall:

1. Either on his own behalf or on behalf of any other person, deal in securities of a company listed on any stock exchange when in possession of any unpublished price sensitive information; or
2. Communicate, counsel or procure, directly or indirectly, any unpublished price sensitive information to any person who while in possession of such unpublished price sensitive information shall not deal in securities.