Discussion of Chakrabarti & Subramanian

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What does the paper do?

- Satyam, Nimesh Kampani
- Had a causal impact on quality of independent directors
- Implications: Need to think more carefully about what the legal system does
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- Satyam, Nimesh Kampani
- Had a causal impact on quality of independent directors
- Implications: Need to think more carefully about what the legal system does
- The sort of paper that I really like.
Another example: Events after resignation of director

- A former director of Apparel Export Promotion Council, accused in a cheque bouncing case
- He left the board in 1998, cheque was written in 2004.
- The Delhi High Court had refused to quash the criminal proceedings!
- On 2011-11-10, the Supreme Court quashed the criminal proceedings, saying: *This court has repeatedly held that in case of a director, complaint should specifically spell out how and in what manner the director was in-charge of or was responsible to the accused company for conduct of its business and mere bald statement that he or she was in-charge of and was responsible to the company for conduct of its business is not sufficient.*

Note: This is not about D&O insurance.
Another example: Prosecution of directors

- Fire at AMRI: Police arrested seven directors,
- Mob gathered outside
- Court remanded them to 10 days police custody, charged with homicide.
- Note: This is not about D&O insurance.
Other anecdotes

- Fame India
- FFSL
- GSFC.
Concern: It was not a surgical shock to IDs only

- India has always had a weak legal system layered with a patina of common sense; certain things were just not done.
- In recent years, that common sense has been under attack.

Now that we can't count on a layer of common sense, we have no alternative but to go fix the foundations. This perspective is reshaping many things – not just the behaviour of IDs. Example: Academic appointments and promotions. These problems are beyond insurance.
Concern: It was not a surgical shock to IDs only

- India has always had a weak legal system layered with a patina of common sense; certain things were just not done.
- In recent years, that common sense has been under attack.
  - Difficulties faced by SEBI members
  - *Caravan* magazine and IIPM; defamation cases more generally
- Now that we can’t count on a layer of common sense, we have no alternative but to go fix the foundations.
- This perspective is reshaping many things – not just the behaviour of IDs. Example: Academic appointments and promotions.
- These problems are beyond insurance.
Concern: Implications for corporate governance

- Implicit in our reading of the paper is the idea that reducing the quality of IDs damages corporate governance.
- It might.
- It might not.
- Results on event date for Satyam.
Unpersuaded by the difference-in-difference

- What we really need is treated units and controls
- Here all firms were treated
- There is endogeneity between choices of IDs and EDs.
Focus only on the months after Satyam.

What happened to the firms where ID exit took place? Use matching technology.

Special significance of post-Satyam exit by member or chairman of audit committee?
Don’t agree on the policy implications

- D&O insurance is just not the issue.
- I think this has roughly zero implications for the US.
- The real story lies in unpredictable and extreme behaviour of the laws, police and the courts, and their interaction with the mob.
- This paper should not be located in the US literature on IDs; it should be located in the governance literature, of the economic consequences of low quality laws – police – courts.
Conclusion

- The best research projects look hard at the world around us, describe phenomena and explain them.
- Need to do more to tell the surrounding story.
Thank you.