

## **Compliance deficit**

### **Why in news?**

Recently SEBI and the Ministry of Corporate Affairs are proposing new corporate governance regulations without reviewing the existing ones.

### **What are the existing corporate governance rules?**

- The companies act specifies minimum board strengths, quotas for independent directors (IDs) and minimum meeting requirements in the company.
- This ensures that promoters and professional managers don't exercise undue influence on corporate decisions.
- It proposes a 50% quota for non-executive directors and one-third should be IDs (50 per cent in some cases).
- It also proposes separate meetings of IDs in order to maintain the autonomy of the company.

### **How are the rules complied?**

- The Excellence Enablers Survey looked into the annual reports of the Nifty 50 companies.
- It measures the degree of compliance achieved by the companies with governance provisions in the Companies Act, 2013 and SEBI's 2015 regulations.
- The findings reveal that even the elite companies have a poor record of complying the rules.
- The companies are finding easy to meet numerical requirements of board strength, IDs and 42 of the 50 companies had over 9 member boards when only six are required.
- Most of the firms in Nifty featured over 75% quota for non-executive directors and over 39 companies filled over half their boards with IDs which is higher than the required.
- 17 Nifty companies flouted the rule of having separate meetings with IDs and 33 companies held only one meeting.
- Nomination and Remuneration Committee and Audit Committee members skipped meetings and rarely attended it.
- The Board took their risk management functions lightly and 22 companies

FY20 annual reports not even flagged Covid as risk.

- Companies were reluctant to put official mechanisms for whistle-blowing and were casual about AGMs with IDs skipping them.

### **What are the takeaways from this?**

- It is worrying to note the poor state of governance of the 5,000-odd listed companies.
- Before framing their next set of governance rules, SEBI and the Corporate Affairs Ministry must investigate reasons for the current non-compliance.
- It should also identify whether there was real hurdle in complying or there is a wilful default.
- Governance rules have to be harmonised with the Companies Act so that the companies don't find easy to exploit loopholes.

**Source: Business Line**

