

Kotak Panel - Recommendations

Why in news?

 $n\n$

Uday Kotak committee established by SEBI has recently released its recommendations addressing rising concerns in corporate governance.

 $n\n$

What are the highlights?

 $n\n$

\n

• **Board** - It recommended a minimum of 6 directors and a maximum of 8 to be on the board of listed entities.

\n

- And at least 50% (currently one-third) of the board should have independent directors and compulsorily one woman among them.
- \bullet It also called for more transparency on appointment of independent directors and a more enhanced role for them. $\mbox{\sc h}$
- \bullet It proposed a mandatory formal induction for every new Independent Director appointed to the board. $\ensuremath{\backslash n}$
- It said that stakeholders should approve the application to fill a casual vacancy of office of any Independent Director.
- It held that no person be appointed as alternate director for an independent director of a listed company.
- Other Recommendations The panel suggested making a distinction between the roles of chairman and MD/CEO of listed companies.
- \bullet It emphasized on regular interaction between NEDs (non-executive director) and the senior management. $\mbox{\sc N}$
- It also suggested an Audit Committee review for the use of loans or investment by holding company for over Rs 100 crore.

\n

• It suggested increasing the number of Audit Committee meetings to five every year.

\n

• It also proposed making D&O (Directors and Officers) insurance for independent directors mandatory, for top 500 companies by market capitalization.

\n

 $n\n$

What is the way forward?

 $n\n$

\n

- The recent instances of rift between the founders and the management of companies drew serious attention to the shortfalls in corporate governance.
- These have considerably weakened the confidence in the quality of board supervision and auditing.

۱n

• The panel has thus suggested a host of changes for bringing in transparency at companies' boards.

\n

• It is now up to the market regulator, SEBI to move forward on implementing the panel's recommendations.

\n

 $n\$

Glossary

 $n\n$

Independent Directors

 $n\n$

۱n

- An Independent director is a non-executive director who does not have any kind of relationship, material or financial, with the company.
- At present, the Companies Act, 2013, says that one-third of the directors on board of every public-listed company must be independent directors.
- Independent directors are to ensure the independence of decisions taken in matters related with the board.

\n

 $n\n$

D&O insurance

 $n\n$

۱'n

- \bullet Directors and officers Insurance is a liability insurance payable to the directors and officers of a company, or to the organization itself. \n
- It is provided as reimbursement for losses or advancement of defense costs in the event of loss as a result of a legal action brought for alleged wrongful acts in their capacity as directors and officers.

 $n\n$

 $n\n$

Source: Economic Times

\n

