

SEBI Acts on Kotak Committee Recommendations

What is the issue?

\n\n

\n

- Uday Kotak committee to suggest reforms in corporate governance was constituted by the SEBI in June 2017.

\n

- While it has submitted a report with 80 recommendations, SEBI has accepted it only partially and plans to implement it in a piecemeal way.

\n

\n\n

What are SEBI's recent actions?

\n\n

\n

- Securities and Exchange Board of India (SEBI) has recently decided to implement some of the Kotak panel report's recommendations.

\n

- While implementation will be done on a piecemeal (spread over time) basis, accusations that SEBI has cherry picked recommendations has sprouted up.

\n

- Notably, only half of the 80 recommendations have been accepted fully, while others have been modified and 18 proposals have been completely discarded.

\n

- Some have vouched that SEBI is going ahead without sufficient deliberation and that the efficacy of the new laws will need to be tested in practice.

\n

\n\n

What are some of the accepted recommendations?

\n\n

\n

- Some of the recommendations accepted by SEBI, if passed into law, can make a material difference to public shareholders in critical areas of

governance.

\n

- **Power Separation** - The proposal intends to make a mandatory separation between the “Chairperson of the Board and CEO” in listed companies.
\n
- This is a significant move and is expected to reduce concentration of powers and root out conflicted decisions such as over-the-top managerial pay.
\n
- But then, whether the Chairperson truly reins in top managers would depend on who appoints him/her and whether he/she is free of promoter influence.
\n
- **Transparency** - Disclosure requirements on auditor resignations, related party deals and consolidated quarterly results is also being proposed.
\n
- These will certainly improve the flow of material information to share holders and help them in knowing the company’s deals better.
\n
- **Shareholder Approval** - The proposal requires companies to seek shareholder approval in all material deals involving payments of over 2% sales.
\n
- While this is to curb “cosy related party deals”, it will be difficult for shareholders win a vote against promoters, due to the skewed ownership patterns in many firms.
\n
- Also, shareholders are highly constrained in their ability to mobilise institutional support in critical meeting to get vet out transactions.
\n

\n\n

What are some of the rejected recommendations?

\n\n

\n

- It isn’t clear on why the Chairperson-CEO separation or deadlines for holding general body meetings must apply only to the top listed companies.
\n
- While the intent may be to reduce the compliance burden on smaller firms, it is untenable in the Indian context as retail portfolios are dominated by mid- and small-cap firms.
\n
- Additionally, it is also the smaller sized firms that feature low levels of analyst scrutiny and thus are at greater risk of mis-governance.
\n

- SEBI has also omitted the recommendation for expanding its own regulatory ambit to scrutinise qualified accounts and prosecute auditors.
\n
- Given the seriousness of the issue, it would have been useful if SEBI has elaborated on its reasons for cherry-picking proposals.
\n

\n\n

\n\n

Source: Business Line

\n

