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SEBI Acts on Kotak Committee Recommendations

What is the issue?

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- Uday Kotak committee to suggest reforms in corporate governance was constituted by the SEBI in June 2017.
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- While it has submitted a report with 80 recommendations, SEBI has accepted it only partially and plans to implement it in a piecemeal way.
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What are SEBI's recent actions?

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- Securities and Exchange Board of India (SEBI) has recently decided to implement some of the Kotak panel report's recommendations.
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- While implementation will be done on a piecemeal (spread over time) basis, accusations that SEBI has cherry picked recommendations has sprouted up.
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- Notably, only half of the 80 recommendations have been accepted fully, while others have been modified and 18 proposals have been completely discarded.
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- 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.
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What are some of the accepted recommendations?

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

governance.
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- **Power Separation -** The proposal intends to make a mandatory separation between the "Chairperson of the Board and CEO" in listed companies.
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- 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.
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- 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.
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- **Transparency -** Disclosure requirements on auditor resignations, related party deals and consolidated quarterly results is also being proposed.
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- These will certainly improve the flow of material information to share holders and help them in knowing the company's deals better.
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- **Shareholder Approval -** The proposal requires companies to seek shareholder approval in all material deals involving payments of over 2% sales.
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- 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.
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- Also, shareholders are highly constrained in their ability to mobilise institutional support in critical meeting to get vet out transactions.
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What are some of the rejected recommendations?

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- 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.
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- 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.
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- Additionally, it is also the smaller sized firms that feature low levels of analyst scrutiny and thus are at greater risk of mis-governance.
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- SEBI has also omitted the recommendation for expanding its own regulatory ambit to scrutinise qualified accounts and prosecute auditors.
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- Given the seriousness of the issue, it would have been useful if SEBI has elaborated on its reasons for cherry-picking proposals.
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Source: Business Line

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