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

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