Kotak Panel - Recommendations

Why in news?

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

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What are the highlights?

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- **Board** - It recommended a minimum of 6 directors and a maximum of 8 to be on the board of listed entities.
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- And at least 50% (currently one-third) of the board should have independent directors and compulsorily one woman among them.
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- It also called for more transparency on appointment of independent directors and a more enhanced role for them.
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- It proposed a mandatory formal induction for every new Independent Director appointed to the board.
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- It said that stakeholders should approve the application to fill a casual vacancy of office of any Independent Director.
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- It held that no person be appointed as alternate director for an independent director of a listed company.
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- **Other Recommendations** - The panel suggested making a distinction between the roles of chairman and MD/CEO of listed companies.
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- It emphasized on regular interaction between NEDs (non-executive director) and the senior management.
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- It also suggested an Audit Committee review for the use of loans or investment by holding company for over Rs 100 crore.

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- It suggested increasing the number of Audit Committee meetings to five every year.
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- It also proposed making D&O (Directors and Officers) insurance for independent directors mandatory, for top 500 companies by market capitalization.
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What is the way forward?

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- The recent instances of rift between the founders and the management of companies drew serious attention to the shortfalls in corporate governance.
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- These have considerably weakened the confidence in the quality of board supervision and auditing.
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- The panel has thus suggested a host of changes for bringing in transparency at companies' boards.
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- It is now up to the market regulator, SEBI to move forward on implementing the panel's recommendations.
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Glossary

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Independent Directors

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

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D&O insurance

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- Directors and officers Insurance is a liability insurance payable to the directors and officers of a company, or to the organization itself.
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- 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.
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Source: Economic Times

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