

Uday Kotak Committee suggests changes in corporate governance rules

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A corporate governance committee was formed by the Sebi in June 2017, under the chairmanship of Uday Kotak, MD, Kotak Mahindra Bank, with a view to enhance the standards of this regime of listed entities in India. The committee recently submitted its report.

- In an attempt to support and enable sustainable growth of enterprise, while safeguarding interests of various stakeholders, the committee has come out with various recommendations.

Important recommendations made by the committee:

Minimum number of board of directors: The Committee has proposed that now board of directors shall comprise not less than six directors. Also board of directors shall have an optimum combination of executive and non-executive directors with at least one woman as an independent director and not less than 50% of the board of directors shall comprise of non-executive directors.

Minimum number of board meetings: These board shall meet at least 4-5 times a year, with a maximum time gap of one hundred and twenty days between any two meetings and at least once a year. Under this meeting, the board shall specifically discuss strategy, budgets, board evaluation, risk management, ESG (environment, sustainability and governance) and succession planning. Listed entity shall, at least once every year, undertake a formal interaction between the non-executive directors and the senior management.

Minimum compensation and remuneration: Top 500 listed entities by market capitalisation shall pay compensation to each independent director as Rs 5 lakh per annum, whether through sitting fees or profit linked commissions. Provided that, this provision will not apply in case of inadequacy of profits in accordance with Section 197 of Companies Act, 2013 – minimum sitting fees for every board meeting of Rs 50,000 for top 100 entities by market capitalisation and Rs 25,000 for next 400 entities.

Way ahead:

If these proposals are implemented, at least 256 companies on NSE will need to increase their board size and 637 will have to appoint a woman director. Also, the ministry of corporate affairs (MCA) has opposed 12 out of the 24 key proposals and said the changes are not feasible and in many instances will cause a regulatory overlap and unnecessarily make the functioning of boards tougher.

To be looked in UPSC Paper 3 Topic: Effects of liberalization on the economy, changes in industrial policy and their effects on industrial growth.