

SEBI APPOINTED UDAY KOTAK COMMITTEE ON CORPORATE GOVERNANCE SUBMITS REPORT

The Uday Kotak Committee has submitted its report to the SEBI regarding proposals for reforms in the regime for corporate governance. The committee is wide ranging and has covered issues pertaining to independent directors, auditors, and information flow to improve governance in listed companies. In the current scenario, the information was flowing through informal channels and in a regulatory vacuum. The committee has proposed formal information channels under regulatory purview.

In a major change recommended by the said report, the committee has recommended that the number of independent directors on a company board be increased from 33% to 50%. The number of annual Board meetings has also been suggested to be increased to five meetings instead of the current statutory requirement.

In the past the problem of auditor misconduct had plagued India Inc. as witnessed in the Satyam scandal. The report of the committee seems to have attempted to address the problem by recommending the SEBI must have powers to penalize errant auditors under the SEBI Act.

Another major recommendation is to tweak the definition of a “material” subsidiary to one whose net worth or income exceeds 10% (currently 20%) of the consolidated income, or net worth of the listed entity. This has been done to improve disclosure, since only the activities of material subsidiaries are disclosed to shareholders.

A far-reaching recommendation is that the Chairman of the Board of Directors be barred from being the Managing Director or the Chief Executive Office of the Company. The report recommends that public sector companies must be regulated by listing regulations instead of current regulation by nodal Ministries.

Whistleblower protection is also another major recommendation in the Uday Kotak Committee’s report. This report is likely to have a significant role in future changes for the corporate governance regime in India.