Breather for India Inc likely on CMD norm

Sebi may extend March 31 deadline for splitting of roles

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The Securities and Exchange Board of India (Sebi) is considering relaxing the March 31 deadline for listed companies to separate the positions of chairman and managing director (CMD).

While the market regulator gave ample time to India Inc to adhere to the rule, not many corporate houses have complied with it. Many tycoons do not want to relinquish the position of chairman, who heads the board of directors. Instead, they want to give up the role of managing director, who manages the day-to-day affairs of the company.

"The government and the market regulator have started consultations and are reviewing the implementation of the rule, considering certain apprehensions they have received from stakeholders," said a person privy to the development.

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247 companies of the top 500 that are yet to decide on creating independent roles for chairman & MD

- Sebi feels separate roles will allow the board of directors to act more independently
- Corporate groups and industry bodies have been lobbying against the norm for the past two months

- They argue the move will not guarantee effective board leadership
- Many do not want to relinquish the position of chairman

While the degree of relaxation in the deadline or final rules governing the issue is yet to be decided, there will be no change in the basic nature of the regulation, the person added.

The development has come following hectic lobbying by corporate groups and industry bodies in the past two months. India Inc had petitioned the government and Sebi in November to review the rule mandating the split of posts and also barring relatives from holding key positions.

After the last board meeting, when queried, Sebi Chairman Ajay Tyagi had neither accepted not denied that the regulator was considering any relaxation.

He had said the norm was aimed at improving corporate governance, and that corporates had been given enough time to meet the requirement. Sebi is not favourable to concentrating powers in one individual, particularly when the individual is the promoter of a company, said source.

According to the new governance norms, the top 500 listed firms by market capitalisation have to comply with the provisions by April 1.

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The data suggests that less than half of these companies have so far complied with the norm. Industry bodies feel that the norm could be onerous and will not guarantee effective board leadership.

The Sebi (Listing Obligation and Disclosure Requirement) Rules do not mandate any separation. In many cases, it is the head of the promoter group (the family patriarch) who is CMD. In some cases, chairman is also CEO of the company.

This norm was part of the Uday Kotak committee report, which was of the view that the issue of whether to separate the roles of chairperson and CEO/MD, while not a recent phenomenon, was a growing concern in corporate governance worldwide. The separation of powers of chairperson and CEO/MD is seen to provide a better and more balanced governance structure. The committee cited global practices and said in some jurisdictions like the UK and Australia, this debate had tilted in favour of separating the two posts. In countries such as France and the US, the issue continues to be vigorously debated.