Sebi gives India Inc two years to split CMD roles

MAJOR RELIEF 162 of top 500 firms have a chairperson, who is also MD, CEO

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MUMBAI: The Securities and Exchange Board of India (Sebi) on Monday allowed two more years for companies to ensure their chairman has a non-executive role, in a major relief for companies that now get additional time for succession planning.

In a gazette notification, Sebi extended the deadline for the change which, in effect, would have required companies to split the role of chairman and managing director (MD), and ensure the chairman is not related to the chief executive officer or managing director. The deadline, set in June 2018, required the top 500 companies to comply by April 2020.

Of the top 500 companies, 162 have the same person as chairperson, managing director and CEO, according to data compiled by NSE Infobase, run by Prime Database. In 52 other companies, the chairperson and MD/CEO are related.

Mint reported on January 10 that Sebi was considering three options for a smooth transition, and one of them was to extend the deadline by two years.

A person familiar with the regulator's thinking said on condition of anonymity that the deadline has been extended as many large companies were unprepared for the transition.

"India Inc. had cited reasons such as lack of global precedence, being ill-prepared for the move, and too short a deadline as some of the reasons," the person said. "In a recent meeting with senior government representatives, India Inc. had also cited reasons such as this would be counterproductive to economic development as the corporates would need to rush to meet the short deadline."

The markets regulator has given companies two more years to ensure the separation of roles of chairman and MD. MINT

"This is a very positive step that the regulator has considered the concerns of India Inc. and has extended the deadline, which gives companies enough time to effect a restructuring," said Haigreve Khaitan, senior partner at Khaitan and Co. "Typically, for promoter-driven companies, it was particularly difficult since no other person except the promoter or family were a better fit for senior management posts."

However, M Damodaran, a former chairman of Sebi, said the decision does not send a good signal. "Companies had enough time to implement the decision. If they had gone about it seriously, there would have been no difficulty," said Damodaran, chairperson of Excellence Enablers, a corporate governance firm.

The head of a large listed company said such a big change in the way companies structure themselves could not be done in a hurry. "It is a very controversial topic given the names involved and expected to be affected by this. I believe that Sebi has done nothing wrong in extending the deadline because a change of this nature cannot be rushed and corporates need to be given time to readjust," he said, adding that by deferring the implementation, Sebi is not cancelling but only ensuring a smoother rollout.

According to Khaitan, the rule barring relatives as chairman and CEO/MD remains a concern. Sebi relies on the definition of a relative as per the Companies Act, 2013, which would effectively prevent sons, daughters and close relatives from taking over the management while the family patriarch stays as chairman.

"Many times, the promoters, in terms of succession planning, groom their relatives (sons and daughters) to take up management roles; so, the persisting condition that they cannot be related is still a concern," said Khaitan.