IBRC

Splitting chairman, MD roles made voluntary

Sebi cites lack of compliance; move comes ahead of April 1 deadline

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Mumbai, 15 February

The Securities and Exchange Board of India (Sebi) on Tuesday made it voluntary for India Inc to have a separate chairperson and managing director (MD)/chief executive officer (CEO). The move comes weeks ahead of the April 1, 2022 deadline by which the top 500 listed companies by market value had to install two separate, and unrelated, persons as chairman and MD/CEO.

"Considering rather unsatisfactory level of compliance achieved so far with respect to this corporate governance reform, various representations received, constraints posed by the prevailing pandemic situation, and with a view to enabling the companies to plan for a smoother transition, as a way forward, the Sebi board at this juncture has decided that this provision may not be retained as a mandatory requirement and instead be made applicable to the listed entities on a voluntary basis," the market regulator said in a press release, issued after its board meeting in New Delhi.

The reprieve will benefit more than 150 companies, which currently have the same individual as chairperson and MD/CEO, according to Primeinfobase, a firm that maintains corporate information database.

Some of the top companies that will benefit from the move are Reliance Industries (where Mukesh Ambani holds both posts), Hindustan Unilever (Sanjiv Mehta), Bajaj Finserv (Sanjiv Bajaj), and Adani Ports (Gautam Adani).

The corporate sector has shown reluctance to comply with this governance requirement despite the rule being initially proposed five years ago, and approved by Sebi four years ago.

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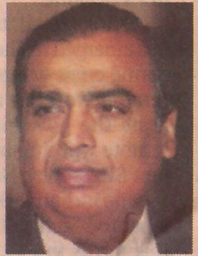
STATUS QUO

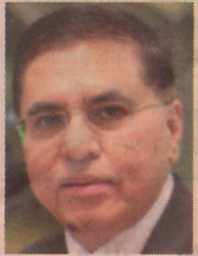
Large private firms that may benefit

RELIANCE INDUSTRIES



Mukesh Ambani

HINDUSTAN UNILEVER



Sanjiv Mehta

BAJAJ FINSERV

Sanjiv Bajaj

JSW STEEL

Sajjan Jindal

ADANI PORTS

Gautam Adani

GODREJ CONSUMER

Nisaba Godrej

152: Companies where chairperson is same as MD or CEO

30.40%: Firms of top 500 with common CMD

Note: Universe top 500 cos; Data as on Feb 14, 2022

Source: Primeinfobase.com

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The market regulator introduced the separation rule in March 2018 and gave India Inc time until April 2020 to comply. In 2020, the regulator extended the deadline by another two years.

"There has been barely a 4 per cent incremental improvement in compliance by the top 500 listed companies over the last two years. Hence, expecting the remaining about 46 per cent of the top 500 listed companies to comply with these norms by the target date would be a tall order," Sebi said.

A chairperson is the head of the board, while the MD/CEO is the head of management, who is supposed to report to the board. The rationale behind the separation of the two posts was to have "a better and more balanced governance structure", the regulator said.

Gaurav Mistry, associate partner, DSK Legal, said that on the one hand, the rule would have ensured more effective and objective supervision of the management, on the other hand, it would have led to duplication of work, and some confusion in terms of authority.

Numerous studies have shown that companies with better corporate governance standards tend to perform better at the bourses.

Industry bodies, however, welcomed the Sebi move.