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Sebi mulls 'out of the box' approach for effective corporate governance

In March, the Irdai issued a stewardship code for companies in its ambit

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Sebi Chairman Ajay Tyagi. Photo: Reuters

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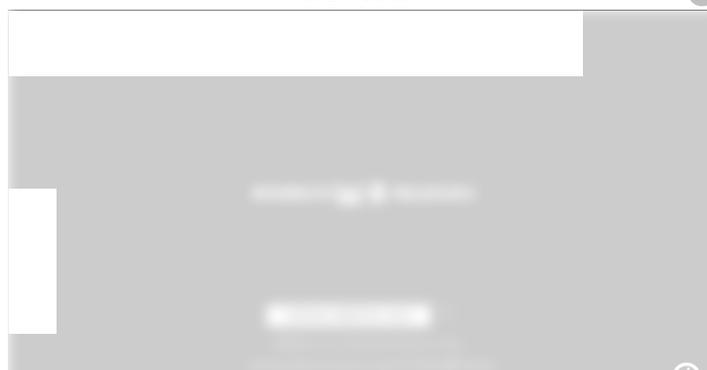
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Capital market regulator Securities and Exchange Board of India (Sebi) is exploring "out of the box" measures to improve [corporate governance](#) standard at [India Inc](#).

Speaking at a [corporate governance](#) summit "Gatekeepers of Governance", Ajay Tyagi, chairman, [Sebi](#) said: "The need of the hour is to have a back-to-basics reconceptualisation of what sound [corporate governance](#) means."

To have an effective enforcement mechanism, [Sebi](#) will have to do some out-of-the-box thinking, he said, while adding that not just the [shareholders](#) but even the other stakeholders can act as change agents.

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The move towards a "stewardship code" could be a good step in this direction, Tyagi said.

At present, there is no specific provision for such a code under the securities regulations. For mutual funds, some stewardship principles have been adopted, such as on voting and conflict of interest. In March, the Insurance Regulatory and Development Authority of India (Irdai) issued a stewardship code for companies in its ambit.

Citing the World Bank's Ease of Doing Business, report, where India ranked in protection of minority [shareholders](#) improved to 4th from 13th, he said "effective implementation of stewardship principles by all institutional [investors](#) may lead to further improvement in India's current ranking in the "protection of minority shareholders".

Experts believe that the stewardship code will make it a formal mandate for institutional [investors](#) to play a stewardship role, rather than remain silent spectators with respect to the affairs of their investee companies

His remarks come at a time when an expert panel constituted by [Sebi](#) has proposed changes to the corporate governance structure for listed companies, including having a common stewardship code for all institutional [investors](#).

He also cited various examples where renowned companies worldwide commanding a premium of anywhere of 10-40 per cent more than their not-so-well-governed counterparts.

"Numerous studies have also indicated that the payoff from good corporate governance manifests both in the operating results of publicly listed companies as well as the market capitalisation of such companies," he said.

Tyagi also called for "equitable balance of power" between shareholder directors and independent directors.

; could involve treading a very fine line but nevertheless, one may have to see that the balance of power or accountability is not tilted in the favour of one at the cost of the other, which may compromise the effective functioning of the board," he said.

Tyagi concluded by saying upholding the principles of good governance "boils down to us, as individuals" irrespective of "how many rules are prescribed, how many guidelines are issued and how many enforcement actions are taken."

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