Sebi finalising new CSR code

In wide-ranging overhaul of rules governing 'good business practices' of listed companies and their top executives, Sebi will soon unveil a new Corporate Governance Code and revamp insider trading norms.

The new corporate governance code would require all listed companies to justify their high executive salaries, put in place an orderly succession plan, adopt a whistle-blower policy for employees and limit the number of directorship a person can hold on company boards, besides various other measures to safeguard the interest of minority shareholders.

These new corporate governance norms, along with an overhaul of nearly two decade-old insider trading norms, would be discussed and finalised after Sebi's next board meeting later this month, a senior official said.

The norms will deal severely with those indulging in unlawful insider trading activities.
Many new categories of persons, including public servants, regulatory officials, judiciary and government officials, dealing with unpublished price-sensitive information are being brought under the purview of insider trading. At the same time, new norms would also seek to clearly differentiate between 'innocent mistakes' and genuine transactions of company executives from the unlawful and serious trading offences.

Other issues likely to be discussed include additional fund-raising avenues in capital markets, including through real estate and infrastructure investment trusts, although a final decision on these fronts is expected only after the government decides on tax treatment for such instruments.

The new corporate governance code is being put in place after taking into account public comments to draft corporate governance norms released by capital markets regulator Sebi earlier this year as well as the related provisions in the new Companies Act, 2013.

The draft norms were issued in January last year, which also seek to grant greater oversight by minority shareholders and independent directors and check any unjustifiable payments to related parties.

It is also proposed to introduce a new concept of 'Corporate Governance Rating' by independent agencies to monitor the level of compliance by the listed companies, in addition to regular inspection by Sebi and stock exchanges.

The new norms also talk of greater alignment of CEO salaries with the performance and goals of the company, as also mandatory disclosure of ratio of remuneration paid to the each of their directors and their median staff salary. Similar provisions have been made in the new Companies Act.

It has been felt that "on average, remuneration paid to CEOs in certain Indian companies are far higher than the remuneration received by their foreign counterparts and there is no justification to that effect".

Sebi is also looking to put in place a stronger risk management framework for exchanges and market entities, while final guidelines are being prepared for research analysts.

"On insider trading, we have done many things, but I will say it is something about which there is a perception that Sebi needs to do more.

"Often, people compare us with the US, without realising that there it is not the SEC (Securities Exchange Commission) alone, but most of the high-profile cases in the US have been handled by their criminal justice system," Sebi Chairman U K Sinha said.
Often, comparisons have been made between regulatory action against insider trading in India and US, where some high-profile cases has come to light in recent months.

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