FICCI Report on Corporate Governance Seeks Further Amendments to the Companies Act
Need to Focus on Ease of Implementation as Driver of Effective Corporate Governance

New Delhi, 15 June 2016: FICCI released a survey-based report today on the state of Corporate Governance in India. The report titled '**Corporate Governance in India@2016: Where do we stand?**' takes an objective look at the reforms introduced by the Companies Act, 2013 and SEBI Listing Regulations and their collective impact on the governance landscape in the country.

The survey reveals that there have been improvements post reforms with respect to financial and non-financial disclosures, assessment of related party transactions and effectiveness of boards as well as independent directors. However, the report is quick to point out that the upturn is not uniform across companies and quantum of benefits realised differs across unlisted and small & large listed companies.

The survey also explored the challenges companies are facing because of regulatory reforms. For instance, large listed companies perceive that threats of regulatory action by enforcement agencies loom large post-reforms due to enhanced risks of prosecution. All companies, big and small, are challenged by greater focus on compliance, not only due to increased costs but also because directors are getting distracted from their core strategic and business functions and focussing more on compliance functions. Companies thus believe that the compliancerequirements have turned into a burden, rather than an opportunity for improvement and growth, which was the legislative intent.

Commenting on the report**, Dr A Didar Singh, Secretary General, FICCI** said, "The survey suggests that though many of the legal provisions are good in form, they have multiplied the compliance burden for companies. The need is to draw a balance between the need for higher reforms with the costs involved". It further stated that the purpose of the report is to highlight the course correction needed and that the proposed changes would further facilitate the implementation of the law and help realize the effectiveness of the governance framework. FICCI has also applauded the Government's decision to move the second amendment to the Companies Act, 2013 for ensuring ease of doing business.

The survey also evaluates the comprehensive disclosure based regime ushered by the Act. While acknowledging that the elaborate disclosures proposed under the new framework were not intended to increase the burden, the report laments that a vast majority of requirements do not render adequate benefits and are mere "form over content," adding to the compliance burden.

Recognising that the effectiveness of reforms lies in the benefits they generate and the ease with which they can be complied with; the survey explores the level of difficulty in implementing the regulations and whether it is commensurate with the benefits gained. The survey found that overall compliance costs have increased. While large corporates have established compliance systems and resources to manage the extra burden, small listed companies find it difficult to mobilise resources and hence find it burdensome.

Based on the responses received, the report enunciates further changes that need to be incorporated in the legislation. Some of the recommendations include removing the requirement of board's certificate on the adequacy and effectiveness of internal financial control; constitution of Audit and Nomination & Remuneration Committee by unlisted companies, bringing down the quantum of penalties for errors of disclosure etc.

Please also find enclosed the full report enclosed for detailed findings and recommendations.

Weblink: http://ficci.in/spdocument/20739/FICCI-Corporate-Governance-Report.pdf

FICCI MEDIA DIVISION