

Advisory Group on "Corporate Governance" submits report

April 3, 2001

The Standing Committee on International Financial Standards and Codes (Chairman: Dr. Y.V. Reddy) constituted the Advisory Group on Corporate Governance under the Chairmanship of Dr. R.H. Patil with Dr. V.V. Desai, Sarvashri Deepak M. Satwalekar, M.G. Bhide, Nandan Nilenkani and Rajendra P. Chitale as members to study the present status of applicability and relevance and compliance of international standards and codes of industrialised and emerging countries and suggest measures/ recommendations for achieving the best practices in India.

The Advisory Group on Corporate Governance has submitted its Report on March 24, 2001 to Dr. Y.V. Reddy, Deputy Governor of the Reserve Bank and Chairman of the Standing Committee. In its Report, the Group has studied Organisation for Economic Co-operation and Development (OECD) principles, the models of corporate governance in various countries U.S., U.K., East Asia and Europe. The Group has also reviewed the present status of corporate governance in India. The frame work of the Group covers the study of the corporate governance mechanism prevailing in India with reference to 1) the private corporate sector, 2) banks and the development financial institutions, and 3) central and state public sector enterprises set up under the Companies Act. In this context, the Group has compared the corporate governance obtaining in India along with the international standards/principals of OECD, London stock exchange combined code, Securities and Exchange Board of India (SEBI) committee report, and Bank for International Settlement (BIS) principles.

The Report has observed that the predominant form of corporate governance in India is much closer to the East Asian "insider" model, where the promoters dominate governance in every possible way. In India, according to the Report, a detailed statutory framework of corporate governance has been enacted in the Companies Act. Therefore, the Report has stated that it is desirable to amend the Companies Act suitably for enforcing good governance practices in India.

The Report has indicated that since most of the Indian companies belong to the "insider" model, it is essential to bring reforms quickly so as to make boards of corporates/banks/financial institutions/public sector enterprises more professional and truly autonomous. According to the Report, the first important step to improve governance mechanism in public sector units is to transfer the actual governance functions to the boards from the concerned administrative ministries and also strengthen the boards by streamlining the appointment process of directors. Further, the Report underlined the need for public sector banks to maintain a high degree of transparency in regard to disclosure of information. The recommendations of the Group were in the areas of responsibilities of the board to stake holders/shareholders, selection procedures for the appointment of directors of the board, size and the composition of the board, committees to be appointed by the board for corporate governance, disclosure and transparency standards, role shareholders, role of auditors, etc.

The recommendations of the Advisory Groups are an outcome of independent and critical assessments undertaken by non-official experts. These recommendations do not, however, constitute the views of the Reserve Bank or the Government of India or other concerned regulatory agencies.

In accordance with the terms of reference of the Standing Committee, it has been decided to make the Report available to the public for wider discussion. The full text of the Report of the Group can be accessed on the Reserve Bank Website www.rbi.org.in

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