



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Corporate Governance With Compliance Under SEBI Laws

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ABSTRACT

Corporate governance is a critical aspect of business performance and sustainable growth. It plays a pivotal role in enhancing transparency, accountability, and ethical code of conduct within organizations, ensuring sustainable operations of business and protects the interests of different stakeholders. Adherence to legal, regulatory, and societal norms is vital for companies to modify their conduct and uphold sound corporate governance principles. SEBI has a significant responsibility in ensuring that listed entities conform to corporate governance norms. Thus, by reviewing important legal regulations, and guidelines of SEBI, this article attempts to give a general overview of corporate governance in compliance with SEBI requirements.

INTRODUCTION

The cornerstone on which the modern business environment is built is corporate governance, which refers to the principles and practices that specify how a corporation should be managed, controlled, and governed. In other words, corporate governance are the policies, procedures, and rules governing the relationships between shareholders, directors and managers of a company, as defined by applicable laws, the corporate charter, the company's bylaws, and formal policies. For listed firms in India, the Securities and Exchange Board of India (SEBI) plays a crucial role in developing and enforcing corporate governance norms. The regulatory framework established by SEBI provides the basis for ethical, moral, and transparent business activity while ensuring that the interests of all parties, particularly shareholders and investors, are aligned.

Companies can use SEBI's rules and recommendations as a compass to guide them through the complexities of corporate governance. These regulations cover a wide range of topics, including how minority shareholders are handled and related-party transactions, as well as board composition and transparency obligations. Companies that follow their legal commitments and ensure compliance with SEBI regulations provide the kind of environment necessary for long-term growth and investor attractiveness.

The main goal of SEBI's corporate governance structure is to promote justice, accountability, and openness. The foundation of this system consists of independent directors, board committees, and standards for complete disclosure. In order to guarantee impartial decision-making and protect the interests of minority shareholders, independent directors play a crucial role. Board committees, such the nomination and remuneration committee and audit committee, act as checks and balances, encouraging fiscal responsibility and capable leadership.

By insisting on accurate and timely disclosure, SEBI equips investors with the knowledge they need to make wise decisions. These disclosures, whether they pertain to financial performance, significant events, or related-party transactions, build the relationship of trust between businesses and their investors.

After what Bombay Stock Exchange witnessed about the first major scam i.e. Harshad mehta scam, the government of India gave statutory powers by bringing a separate piece of legislation called the "SEBI act 1992." SEBI has implemented a number of stock market changes since then. The Indian Stock Markets have undergone a considerable change as a result of these reforms.

In accordance with the Board's decision, the SEBI Board, at its meeting on January 25, 2000, took the Committee's recommendation into consideration and decided to amend the listing agreement. It is suggested that a new clause, known as clause 49, be incorporated into the listing agreement, this clause is further discussed in this research paper.

SCOPE AND OBJECTIVES:

The extensive scope and multifaceted objective of corporate governance with compliance under SEBI laws are significant factors that influence how firms are managed, directed, and controlled in India's financial landscape. These cover a wide range of rules, guidelines, and procedures that are meant to promote accountability, transparency, and moral behavior.

The broad scope of corporate governance with compliance under SEBI laws are mentioned below:

1. Executive and independent directors must be included in a well-proportioned board of directors, which SEBI mandates be established. As directors are responsible for managing the affairs of a company and have vast powers vested in it, this scope ensures that directors have a wide skill set for making good decisions by covering the recruitment, appointment, duties, and responsibilities of directors.
2. Companies must adhere to accountability and ethics. This means that companies must uphold an ethical corporate conduct and must maintain accountability for their actions. This scope will help the companies in creating a conflict free environment, using resources responsibly, and adhering to legal and regulatory requirements.
3. It is really important for the companies to maintain the transparency and financial accountability, so SEBI makes it mandatory for the companies to have an audit committee to oversee the financial reporting, internal controls and compliance. This audit committee is made up of independent directors.
4. This scope of corporate governance with compliance under SEBI legislation make it as a responsibility for companies to cover the prompt and correct disclosure of financial data, performance indicators, transactions involving linked parties, and major events. Giving stakeholders, especially investors, the information they need to make wise decisions depends on transparency.

The following list outlines the varied goals of corporate governance with respect to compliance with SEBI laws:

- 1) The first and foremost objective is to protect those who hold an interest in the company. To safeguard the interest of shareholders and investors. Corporate governance practices help to investigate the relationship between market stability and investor protection.
- 2) Another objective is the evaluation of how the corporate governance structure of SEBI, taking into account social, environmental, and governance issues, complies with the principles of sustainable growth, investigation of the link between long-term value generation and sustainable business strategies.
- 3) To maintain the integrity in the market and reputation. Analyzing SEBI's contribution to protecting unethical behavior and ensuring code of conduct compliance in order to preserve market integrity. Analysis of how adherence to SEBI laws benefits a company's reputation, draws in investors, and develops a positive climate.
- 4) The objective of SEBI guidelines with related to corporate governance. Analyze how following SEBI disclosure standards improves transparency, lowers information asymmetry, and increases investor confidence. An examination of the effects of improved disclosures on market efficiency and well-informed choice.
- 5) To analyze how SEBI laws support justice, accountability, and fair treatment of stakeholders, especially minority shareholders. Examining the part board committees and independent directors play in promoting ethical business conduct.

SEBI GUIDELINES IN CORPORATE GOVERNANCE

In an effort to enhance corporate governance, the SEBI has launched numerous programs, established numerous committees, and changed Clauses 35B and 49 of the listing agreement since it was established in 1992. Clauses 35B and 49 of the listing agreement serve as two illustrations of how the SEBI participates in corporate governance through norms and rules.

SEBI has taken action to align Indian corporate governance practices with the standards set by other developed countries. With the most recent amendments to Clauses 35B and 49 of the Listing Agreement, Governance is now more strengthened and effective in protecting the interests of all stakeholders.

SEBI standards and recommendations under Clauses 35B and 49 of the listing agreement for good corporate governance:

Clause 35B:

According to the revised clause 35B, companies must offer electronic voting to its shareholders for all shareholder resolutions that will be voted on at general meetings or through postal ballot. The company must send the meeting notices to all the members like directors, company's auditors. The notices can be sent via registered mail or courier and they must also be published on company's official website. The meeting notices must reveal that the members can cast postal and electronic ballots. The internet link through which the e-voting would conduct shall be mentioned to their shareholders by the company.

Clause 49:

The updated Clause 49 of the Listing Agreement complies with the 2013 Companies Act. The updated provisions of Corporate Governance norms compliance are accommodated within 11 sub-classes of clause 49. These 11 sub-classes discussed below:

I. Corporate governance: This sub-class solely protects the interest of the shareholders (including minority and foreign shareholders) and their rights. Also, this sub-class includes the disclosure which need to be made in order to be more transparent to the stakeholders and covers the responsibility of Board. It broadly layouts:

- The rights of shareholders
- Role of stakeholders in Corporate governance
- Disclosure and Transparency
- Responsibility of Board

II. Board of Directors: This sub-clause involves the composition of directors, term and restrictions on independent directors, code of conduct, and whistle blower policy.

- **Composition of Directors:** the company shall have an ideal balance of executive and non-executive directors must be present on the board of directors of the corporation, with at least one woman serving in that capacity and at least half of the board being non-executive. Non-executive director being the chairman and 1/3rd of the board should consist of independent directors.
- **Independent directors:** as stated above an independent director shall be a non-executive director, other than a nominee director of the company. An implicit restriction on an independent director states that they may serve in no more than seven listed companies and not more than three listed firms if they are full-time directors of any listed company. An independent director may serve on the Board of a corporation for up to five consecutive years, and upon acquiring a special resolution by the company, they may get reappointed for an additional term of up to five years in a row. The performance evaluation of an independent director shall be based on the criteria laid down by Nomination committee.
- **Code of Conduct:** the company's official website shall post the code of conduct laid down by the BOD for every Board member and senior management of the company. The 2013 Companies Act's requirements for Independent Directors shall be appropriately included into the Code of Conduct.
- **Whistle Blower Policy:** Anyone who discloses wrongdoing, fraud, illegal behavior, or misappropriation within a corporation is protected under the subclause of this clause. The corporation must publish the specifics of the creation of such a mechanism on its website and during board meetings.

III. Audit Committee: This particular sub-clause bring about the:

- **Qualification and Independent audit committee:** there shall be three directors as members of audit committee. The committee shall have 2/3rd of the members of audit committee as independent director. One of the members of audit committee shall have the expertise in accounting and in financial management.
- **Meeting of Audit Committee:** At least four sessions of the Audit Committee should take place each year, with no gap of more than four months between them.
- **Powers of Audit Committee:** to look into any behavior that falls inside its scope of authority, to inquire about details with any employee, to seek independent legal or other expert, to ensure the presence of outsiders with the required skills, if it deems it necessary are some of the powers given to Audit Committee.
- **Role of Audit Committee:** recommending various criteria for auditors of the company, reviewing the financial statements with the management, overseeing the process of financial reports of the company, analyzing the financial controls and risk management systems are some of the roles of Audit Committee.
- **Review of information by Audit Committee:** it is mandatory for the Audit Committee to review the information like discussion and analysis by management of the financial situation and operational results; management's declaration of major related party transactions; internal control flaws identified in management letters; and assess the Chief Internal Auditor's appointment, removal, and compensation arrangements.

IV. Nomination and Remuneration Committee: This committee shall contain minimum of three non-executive directors and at least half as an independent director. The clause emphasizes the committee's responsibility for creating the standards for assessing independent directors and the board, determining compensation for directors and other personnel, and identifying candidates for directorships. The chairman of the Nomination and Remuneration committee is answerable to the shareholder's queries.

V. Subsidiary Companies: A significant non-listed Indian subsidiary company shall have at least one independent director on its board of directors, including at least one independent director on the board of the holding company. The financial statements, particularly the investments made by the unlisted subsidiary firm, will be examined by the Audit Committee of the listed parent company.

VI. Risk management: A company shall set up a risk management committee since it is advantageous for the organization to understand the risk and how to manage it. The committee shall inform the Board members about the procedures laid down by them to minimize the risk and it is also responsible for setting up, executing and checking the risk management plan.

VII. Related Party Transactions: Related party transactions refer to those transactions involving the exchange of assets, liabilities between a company and a related party. This sub-clause outlines what 'related party' refers to. A prior approval of Audit Committee is necessary for the related party transactions and Through special resolution, shareholder's approval is required for all material related party transactions.

VIII. Disclosures: The following particulars shall be disclosed:

- details of all material of related party transactions.
- accounting treatment
- remuneration and resignation of directors
- information that the shareholders must be aware of
- various information to be disclosed in annual report like the specific training provided to Independent Directors, a Management Discussion and Analysis report

IX. Certification from Chief Executive Officer and Chief Finance Officer certification:

To the best of their knowledge, the CEO and CFO must declare to the board that:

- the financial statements are reviewed by them and the statements are accurate and fairly reflect the affairs of the company
- during the year, all the transactions that are entered does not contain any fraudulent, illegal, or violative code of conduct of the company
- they have made remarkable changes to auditors and the Audit Committee.

X. Report on Corporate Governance: In annual reports, there must be a distinct part for Corporate Governance mentioning detailed compliance report about the Corporate Governance. Within 15 days before the close of quarter, a quarterly compliance report shall be handed over to stock exchange with the format prescribed in Annexure-XI to the Listing Agreement. This report shall be duly signed by the Chief Executive officer or the Compliance officer of the company.

XI. Compliance: With regard to the compliance of conditions of Corporate Governance, a company must take certificate from the auditors or the practicing company secretaries which shall also be sent to the Stock exchanges accompanied by the annual report filed by the company.

CONCLUSIONS AND RECOMMENDATIONS

In conclusion, the complex interaction between corporate governance and adherence to SEBI legislation emerges as a pillar of India's financial ecosystem, in conclusion. This study has examined the extensive reach and varied goals that these regulations have. It is clear from looking at SEBI's recommendations that corporate governance is not just a legal requirement but also a core value that supports accountability, transparency, and moral conduct in a company.

Due to SEBI's unwavering focus on board composition, transparency, ethical behavior, shareholder involvement, and responsibility, a climate of trust, investor interests, and market integrity are protected. These principles work in concert with SEBI's regulatory framework to strengthen market stability and advance India's corporate ecosystem internationally.

Several recommendations might be made, building on the conclusions of this study, to further solidify corporate governance while adhering to SEBI laws:

- To stay up with changing market dynamics, international best practices, and new dangers, SEBI should routinely review and amend its corporate governance legislation. To address new difficulties as they arise and to guarantee that the regulations remain effective and pertinent, changes should be made on a regular basis.
- SEBI should launch activities to inform investors and business entities about the importance of corporate compliance and governance. Workshops, seminars, and online tools can be extremely helpful in spreading knowledge and promoting a culture of ethical business conduct.
- Due to resource limitations, implementing strong governance procedures can be difficult for small and medium-sized businesses. SEBI ought to create specialized guidelines and assistance programs that let SMEs adopt adequate governance practices without being overburdened.
- In order to increase investor confidence and lessen information asymmetry, corporations should be encouraged to make thorough and comprehensive disclosures, particularly with regard to related-party transactions, executive compensation, and risk management procedures.