

## PSUs get-off corporate governance norm violations with minor penalties

## **Synopsis**

A study of companies' secretarial compliance reports shows at least a dozen public sector entities such as Power Grid Corp., NMDC, Oil India and Hindustan Petroleum Corp. have not complied with the corporate governance requirements.



In some of the cases, exchanges have even waived-off the penalty on the request of the PSU.

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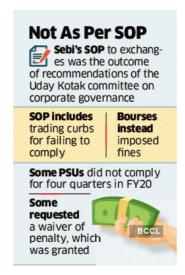
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Market movers: Pharma extends losses, OMCs come to party; 50 stocks turn 'overbought' Mumbai: Listed state-owned companies have been let off with lighter penalties by stock exchanges for failure to comply with corporate governance norms, a violation that usually leads to suspension of trading in the entity's shares. A study of companies' secretarial compliance reports shows at least a dozen public sector entities such as Power Grid Corp., NMDC, Oil India and Hindustan Petroleum Corp. have not complied with the corporate governance requirements.

The Standard Operating Procedure (SOP) specified by the capital markets regulator requires stock exchanges to impose trading restrictions on the shares of a company if it fails to comply with the corporate governance norms for two successive quarters. Exchanges have however let off the PSUs with minor cash penalties. In some of the cases,

exchanges have even waived-off the penalty on the request of the PSU.

"The SEBI corporate governance requirements do not prescribe different standards of compliance for a listed PSU," said Jabarati Chandra, partner, S&R Associates. "Accordingly, unless such PSU has obtained a specific exemption from SEBI, instances of non-compliance with corporate governance requirements, should be handled in a manner similar to non-compliances by a private sector company."



For instance, NMDC did not complied with the board composition requirements for all the four quarters in FY19-20. BSE and NSE levied a fine of Rs 13 lakh each on the company.

Similarly, Power Grid failed to maintain the number of independent directors for four quarters in a row during FY20. After NSE imposed fines on the PSU for this non-compliance, Power Grid sought the penalty be quashed.

According to a regulatory disclosure made by Power Grid, NSE has waived off the penalty against the company for June and September quarters of FY20.

Oil India and HPCL are among the other companies which have reported lapses in compliance with corporate governance rules, data showed.

Emails sent to Sebi and National Stock Exchange (NSE) remained unanswered. BSE declined to comment on the development.

Sebi issued a SOP to exchanges in September 2018 specifying the time-bound action that needed to be taken in case of companies not complying with the corporate governance rules. These included not having sufficient independent directors, absence of woman director and not constituting the audit and remuneration committees based on Sebi rules. The SOP was released after Sebi revamped the corporate governance regime for <a href="India Inc">India Inc</a> based on recommendations given by a high-level committee headed by banker Uday Kotak.

While suspension in trading is the first step, exchanges have been asked to freeze the promoter shareholding in the companies if the non-compliance goes beyond two quarters. However, the suspension can be revoked after the company complies with the requirement. The exception for this SOP is where there is a verdict by a court or other judicial agency.

"PSUs are ultimately publicly listed companies and hence they should be expected to follow all the relevant governance norms," said Gaurav Pingle, company secretary and founder of Gaurav Pingle & Associates. "Hence the SOP for non-compliance should be applied even to the PSUs and Sebi should act

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