

NSE to list well-governed firms in new category to help new investors

Companies that aim to be listed in this category will have to meet norms stricter than the ones mandated by current regulations

Ashley Coutinho | Mumbai January 14, 2019 Last Updated at 21:00 IST



Vikram Limaye

Investors will soon be able to track all companies with high standards of corporate governance in a special category on the National Stock Exchange of India, said its Managing Director (MD) and Chief Executive Officer (CEO) Vikram Limaye.

“As a frontline regulator, the NSE has always emphasised high standards of corporate governance. This initiative of ours constitutes a paradigm shift from a mandate-driven system to an incentive-driven system,” said Limaye.

Companies that aim to be listed in this category will have to meet norms more strict than current regulations.

This initiative is inspired by the Novo Mercado in Brazil, pioneered by the country’s stock exchange Bovespa. Since its introduction in 2000, a number of other stock exchanges, such as the one in London, have followed its example.

In the past few years, a number of companies, including blue-chip ones, have been caught on the wrong foot as far as corporate governance standards are

concerned. The NSE’s initiative aims to distinguish financially and ethically strong companies, while creating a safe and a strong value proposition for first-time investors.

Limaye said companies opting for this category would benefit from improved liquidity, higher valuations, and better institutional investors.

Those planning to invest in these companies would have the comfort that they were putting their money in firms that had sound governance and protection for minority shareholders.

“Currently, there is no way to distinguish better-governed companies from others. We believe in incentives. We thought of adopting a system that would drive corporate governance through incentives and complement the current system,” said Limaye.

Only companies on the NSE’s main board, with a certain net worth and average trading value above a threshold, will be eligible to be part of the category.

Companies will have to exit the list if they fail to comply with the norms. They would continue to be on the main board.

The category will also mandate higher norms those that required by current Indian regulations.

For instance, companies will be required to maintain a public shareholding of at least 40 per cent compared to the current legal requirement of 25 per cent. The board chairperson shall not be eligible to be chairperson of the audit committee or the nominations and remuneration committee. There is currently no such legal provision.

The promoters shall have fiduciary responsibilities towards minority shareholders with respect to related party transactions and squeeze-outs irrespective of whether they are on the board of directors or not.

The NSE started this exercise about a year ago by setting up an external expert advisory group comprising prominent institutional investors, lawyers, academics, compliance professionals, directors and exchange staff.

“In effect, what these companies are saying is that they will do a little bit more than what the guidelines expect them to do. And there is a commitment to do this on an ongoing basis. They are not doing this because it ticks the boxes but because they believe in it. This is what will

give investors the comfort," said Amit Tandon, founder and managing director, Institutional Investor Advisory Services, a proxy advisory firm.

"Once the investors know what will happen they price them on that basis, knowing that this is the expected corporate behaviour," he added.

While signing up for the category will be voluntary, doing so could increase the profile of these companies among institutional investors and regulators, and lead to better liquidity and valuations, say experts. Investors will benefit from knowing that the companies adhere to higher governance standards and prioritise investor protection.

"This will incentivise companies to aspire to higher standards of corporate governance as those that are part of the category will command higher valuation. Retail investors, who do not have the wherewithal to do their own research, will benefit," said Anand Shah, head, investments, and deputy CEO, BNP Paribas Mutual Fund.

Over the years, a number of measures have been taken to improve corporate governance standards in India. The Companies Act 2013, for instance, introduced norms with regard to the independence of the board, gender diversity and corporate social responsibility, among other things.

Last year, market regulator Sebi introduced a new corporate governance framework based on recommendations made by an expert panel headed by Kotak Mahindra Bank MD and CEO Uday Kotak.

The committee has recommended that roles of chairman and MD be split for top 500 listed companies and mandated at least one woman director on the board of top 1,000 listed companies by April 1, 2020.