

Finance Ministry raises governance bar for non-official directors at PSBs

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Introduces new code and peer-review to enhance their effectiveness

The Finance Ministry has come up with a code for non-official directors as part of a new set of measures introduced to enhance governance in public sector banks (PSBs) through improved effectiveness of non-official directors (NODs).

Peer review of NODs has also been stipulated upon completion of one year from the date of his/her nomination. The concerned PSB will now have to file reports with the Finance Ministry on the performance evaluation of NODs by the board of directors. NODs are directors nominated by the government, as promoter, at PSBs.

To enhance the effectiveness of NODs, the Finance Ministry has tasked PSBs to familiarise NODs through various programmes on topics such as cyber security, use of technology in banking, macroeconomic and fiscal policy, credit appraisal, risk management, and treasury operations.

In India, the banking system is dominated by PSBs, which account for more than 70 per cent of the assets of the system. The Acts (laws) governing public sector banks do not define independent directors. PSBs are not subjected to the corporate governance norms as stipulated under SEBI's Listing Obligation and Disclosure Requirements (LODR) Regulations and Companies Act 2013.

It may be recalled that SEBI had provided that entities coming under special legislations will not be subjected to LODR norms as regards board composition and governance.

As part of PSB governance reforms, the Finance Ministry has now introduced new measures such as 'Code for Non-Official Directors' to enable NODs function "in a manner similar to that envisaged for independent directors under the Companies Act".

The 'Code for NODs' will be in addition to the existing 'Guidelines on Role and Responsibilities' and 'Do's and Don'ts' for NODs issued by the Finance Ministry in September 2002.

A feeble attempt

Corporate governance experts see the Finance Ministry's latest move as a "tentative and half-hearted" exercise to professionalise the guidelines.

It is seen as a feeble attempt to improve governance in PSBs and looks to be "more apparent than real".

The potency of the latest measures would depend on the type of people who get appointed, they said. So long as the NODs continue to be appointed by the government, they cannot be expected to perform "similar to independent directors".

By definition, NODs cannot be treated as independent when they are appointed by government, which is a promoter and controlling shareholder in PSBs, they said.

“The whole thing reeks of some patch work. There is no structural reform per se in this,” said a corporate governance official, who did not wish to be identified.

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