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A move towards good corporate governance

COMPANY AFFAIRS



### A MOVE TOWARDS GOOD CORPORATE GOVERNANCE

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The Ministry of Company Affairs (MCA) is gearing itself to meet the challenges arising out of the current economic growth in the country, emergence of new areas of activities and corresponding business models, and the need for mobilizing investment in the private sector. The Ministry is primarily concerned with the administration of the legal framework governing corporate functioning and the administration of the Companies Act, 1956. In addition, it also administers the Chartered Accountants Act, 1949, the Cost and Works Accountants Act, 1959 and the Company Secretaries Act, 1980. The Government has also introduced the Competition Act, 2002, which would eventually replace the Monopolies and Restrictive Trade Practices Act, 1969.

Many changes have taken place in the Indian economy since the Companies Act, 1956 was enacted. The aspirations of the Indian corporate sector are continuously evolving. Growth in size is accompanied by rapid diversification and integration with the international economy. Knowledge and service based sectors are playing increasingly important role in the overall economic growth. There is greater emphasis on good corporate governance along with need for confidence building measures among the investors. In this scenario the need of the hour is to provide a compact framework that also contains adequate flexibility to allow for timely evolution of new arrangements so as to improve the qualitative and quantitative aspects of regulations of the companies by revamping the Companies Act, 1956 and other related Acts.

Currently, the Ministry is abuzz with two major initiatives, namely, DCA21 Programme and a comprehensive revision in the Company Law. DCA21 Programme is an e Governance initiative that aims at continuously repositioning MCA as an organization capable of fulfilling the aspirations of its stakeholders in the 21st century. Beginning with 29,874 companies at work in the country as on April 01,1956, the number of companies has grown to 6.4 lakh as on March 31, 2004. While it took 34 years to reach a total of 2.02 lakh companies in 1990, the number has increased by 4.4 lakh companies in the last 13 years.

Realising that the administrative machinery has not been able to keep pace with this phenomenal growth of the companies in terms of delivery of services to various stakeholders, the Ministry has sought to address this weakness through the e Governance initiative. The programme, which is at the take off stage, would provide citizens, corporate and others easy and secure online access to all the MCA services including filing and registration throughout the country, anytime and in a manner that may be determined by the citizens and businesses as best suited to them. The programme is an outcome based and focused on improving the quality of services to various stakeholders concerned with the corporate sector in the country. Proposed to be undertaken with an approximate cost of Rs.345 crore, once fully implemented, the programme would result in paperless transactions at the cutting edge.

The MCA has separately taken up an initiative for comprehensive revision of the Companies Act, 1956 through a consultative and participative process. The Concept Paper on Company Law was disseminated on the website of the Ministry on August

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4, 2004 and responses from various stakeholders were invited within a period of three months. A large number of responses have been received. An Expert Committee, headed by Dr. J. J. Irani, and comprising representatives of industry associations, regulatory and professional bodies and legal experts has been constituted to advise the Ministry on issues relating to the Company Law to enable development of New Companies Bill. The Irani Committee has already started its deliberations and is expected to come out with its recommendations in a short time.

Protection of interests of small investors is one of the commitments of the United Progressive Alliance (UPA) Government in the National Common Minimum Programme (NCMP). The emphasis of initiatives taken during last six months in this regard has been on revamping of grievance redressal mechanism in the Ministry and its field formation with a view to make it responsive, prompt and effective.

The Ministry is acutely aware of the concerns of a large number of investors. While a special cell has been set up to monitor and track the vanishing companies and take all possible remedial measures, a fund known as Investor Education and Protection Fund (IEPF) has been established in MCA with effect from October 01, 2001 in accordance with Section 205-C of the Companies Act, 1956, to protect the interests of the small investors. Various programmes on investor education and awareness have been funded and organized through the NGOs and other associations. Various programmes related to the investor issues have been telecast over the Doordarshan and private channels.

Organizations willing to take up Class Action Suits on behalf of investors can also apply for financial assistance under the IEPF. Research projects on unclaimed dividends and Indian household investors and training of trainer's programme are being funded to help NGOs and other organisations in the field of investor education. A website namely, [www.watchoutinvestors.com](http://www.watchoutinvestors.com) has been created to help the investors protect themselves from unscrupulous promoters, companies and entities. The website aims to become the national registry of economic defaulters and would cover information on convictions by various regulatory bodies.

Introduction of a culture of Corporate Governance is the need of the hour for the comfort of all the stakeholders. The MCA, after consultations with industry associations and professional institutes, has set up National Foundation for Corporate Governance (NFCG) as a not-for-profit trust on October 01, 2003 with MCA, Confederation of Indian Industry (CII), Institute of Company Secretaries of India (ICSI) and Institute of Chartered Accountants of India (ICAI) as participating trustees. Shri N.R. Narayana Murthy, Chief Mentor, Infosys has been nominated as Vice-Chairman of the Foundation. The main objectives of NFCG are to provide a platform to deliberate on issues relating to good corporate governance and to sensitise corporate leaders on the importance of good corporate governance, self-regulation and directorial responsibilities. It also facilitates exchange of experiences and ideas between corporate leaders, policy makers, regulators, law enforcing agencies and NGOs. Another objective enables it to prepare a code of best practices for Corporate Governance and to provide advice, consultancy and technical and managerial support to the beneficiaries of the Trust's programme. The Foundation has already started its work by organizing a number of conferences and would expand further in due course of time. In fact, the MCA is striving hard to continue with endeavor to fulfill the aspirations of various stakeholders and come up to their expectations. (PIB Features)

**\*\*Minister for Company Affairs**