



IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative

Failure of Corporate governance - ICICI Case Study

What is the issue?

\n\n

A case of possible misconduct by ICICI CEO has spotlighted the concerns in corporate governance.

\n\n

What is ICICI misconduct case all about?

\n\n

\n

- ICICI Bank's troubles are rooted in a 2016 complaint by an investor alleging a quid pro quo deal between Bank CEO's immediate family members and the Videocon group which got a Rs. 3,250-crore loan from it.

\n

- When this 'conflict of interest' complaint resurfaced in the public domain this year, chairman of board of directors of the bank personally inquired into it two years earlier and found nothing amiss.

\n

- With the Central Bureau of Investigation and later the stock market regulator SEBI swooping in, the issue of whether the bank had failed to make adequate disclosures about its dealings with the borrower (who is now a defaulter) and a firm related to CEO's family member was spotlighted.

\n

\n\n

What are the concerns with bank's action in dealing this issue?

\n\n

\n

- To address the allegations the bank has formed a Committee to probe into the issue, the internal review undertaken by the bank confirmed that there was no material finding of lapse.

\n

\n\n

\n

- The concern here is that the review was done internally by the bank and the report was never made public, let alone the conflict-of-interest being disclosed to SEBI.

\n

- ICICI disbursed only part of the Rs 3,250 crore as part of a consortium of banks who financed Videocon.

\n

- Over this issue SEBI has summoned ICICI Bank and CEO for not reporting the conflict of interest, For over two months no explanation has been submitted to SEBI.

\n

- There are also rumours that ICICI bank and CEO may file for settlement proceedings with SEBI for the compounding of offences.

\n

\n\n

What are the further actions to be taken on this issue?

\n\n

\n

- A preliminary examination by the regulator has favoured adjudication proceedings against ICICI bank and CEO.

\n

- The bank may face a penalty of up to Rs 25 crore under the relevant SEBI regulations for such lapses, while the fine for CEO may go up to Rs 1 crore, besides other penal action.

\n

- But as per the Securities and Exchange Board of India (Settlement of Administrative and Civil Proceedings) Regulation, 2014, no settlement or compounding of acts of a fraudulent nature, which caused substantial losses to investors, is allowed.

\n

- Considering this, these offences would be treated as being of a criminal nature.

\n

- Also, the penalty amount would be decided on the basis of the benefit derived by the applicant as well as the amount of loss suffered by the investor.

\n

\n\n

\n\n

What are the shortfalls with corporate governance in India?

\n\n

- \n
 - Corporate governance is one of the most important differentiators of business that is distilled from an organisation's culture, its policies and ethics, especially of the people running the business, and the way it deals with various stakeholders.
- \n
 - While significant steps have been taken by the regulatory authorities in India to enhance corporate governance, the stakeholders are not protected from poor corporate governance.
- \n
 - As soon as common investors and the public come to know about the shady dealings of management, thousands of crores of net worth is battered by a loss of market capitalisation over a few months.
- \n
 - There is no mechanism to compensate the stakeholders for their loss in equity market due to gruesome corporate governance.
- \n

\n\n

What measures needs to be taken?

\n\n

- \n
 - When investors and flat owners lost their hard-earned money to bad builders, Bombay High Court directed the police department to treat such cases as criminal and register the complaints against the builders in question.
- \n
 - The same principle should be applied when equity investors lose money due to bad corporate governance.
- \n
 - To this end, like the Real Estate (Regulation and Development) Act (RERA), 2016, a separate act and regulations are required to protect equity capital investors in the stock market.
- \n
 - Thus the policy must address the issues like Nepotism, favouritism, conflict-of-interest, quid pro quo, transparency, Lack of accountability.

\n

\n\n

Source: Indian Express

\n



IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative