

Sebi makes setting up whistle-blower mechanism mandatory for companies

Amid a growing number of scams **related to corrupt practices** in corporate India, market watchdog Securities and Exchange Board of India (Sebi) has decided to make it mandatory for listed companies to have a whistle-blower mechanism for their employees and directors.

The mechanism would also need to have necessary safeguards to protect whistle-blowers from victimisation while checks would also be required against any misuse of this facility aimed at encouraging directors and **employees to report genuine concerns** and any wrongdoings at their company.

While the new Companies Act also provides for certain classes of companies being required to establish a vigil mechanism for their directors and employees, Sebi has now decided to incorporate a provision in this regard in its new Corporate Governance Code for listed firms.

The Code has been approved by the Sebi board and would be soon notified by the regulator.

According to an internal document prepared by Sebi on this issue, a proposal to make whistle-blower mechanism compulsory for listed companies has been favoured by a vast majority. The proposal received 19 comments in its favour and just one against it, the market regulator said.

The whistle-blower mechanism, popular in many developed nations, provides an opportunity for employees to report any misdoings within their company.

Sebi's Primary Markets Advisory Committee in fact recommended that the whistle blower mechanism should be made available to all employees, as well as other stakeholders of the company. It also suggested that the whistle blower policy of the company should be widely publicised to the target segments.

Sebi, however, concluded that the mechanism would ideally be kept open only for internal stakeholders such as employees and directors.

"Other external stakeholders are not totally within the powers of the company and have other avenues for redressal of their concerns. Hence, the proposal may be aligned with the

Companies Act, 2013 and whistle blowing mechanism may be restricted to directors and employees only," Sebi said.

At present, a listed company may establish a mechanism for employees to report to the management, their concerns about unethical behaviour, actual or suspected fraud or violation of the company's code of conduct or ethics policy.

However, it is currently not mandatory for companies to have a whistle blower mechanism.

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