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## RECENT DEVELOPMENTS IN THE REGULATION OF CORPORATE ETHICS IN INDIA


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### ABSTRACT

Corporate ethics play a critical role in maintaining transparency, accountability, and sustainability in businesses. In India, corporate governance has evolved significantly in response to high-profile scandals and the growing need for ethical conduct in the corporate sector. This article examines the recent regulatory changes aimed at strengthening corporate ethics, including amendments to the Companies Act, SEBI regulations on disclosures, the prohibition of insider trading, and the strengthening of independent directors' roles. The introduction of National Guidelines on Responsible Business Conduct (NGRBC) and enhanced whistleblower protections also emphasize the promotion of ethical practices. Furthermore, ESG reporting mandates and the impact of the Insolvency and Bankruptcy Code (IBC) highlight India's focus on responsible corporate behavior. While challenges in enforcement persist, these developments mark a decisive step towards building an ethical and transparent corporate ecosystem in India.


### INTRODUCTION

Corporate ethics, or the adherence to moral principles within business practices, has gained unprecedented importance in India. It helps establish trust, foster transparency, and ensure business sustainability. Over the years, high-profile corporate scandals such as Satyam Computers and IL&FS exposed significant gaps in India’s corporate governance and accountability framework, driving the need for regulatory overhauls. The Indian government and the Securities and Exchange Board of India (SEBI) responded by introducing new laws, amendments, and guidelines that compel companies to adopt more responsible and ethical practices. This article discusses the latest regulatory developments that address the growing demand for accountability, transparency, and ethical conduct in Indian corporations.

## 2. CORPORATE GOVERNANCE AND THE ETHICAL FRAMEWORK IN INDIA

Corporate governance in India rests primarily on two pillars: the Companies Act, 2013, and the regulatory oversight provided by SEBI. The Companies Act provides a framework for ethical practices by mandating transparency, responsibility, and accountability. SEBI's regulations for listed companies include additional guidelines, such as requirements for financial disclosures, governance practices, and periodic reporting to shareholders, which together contribute to a robust ethical framework.

Key ethical principles upheld in corporate governance include:

- **Transparency**: Businesses must make relevant information available to stakeholders, allowing them to make informed decisions.
- **Accountability**: Board members and corporate leaders are accountable to shareholders and other stakeholders for their actions.
- **Fairness**: All stakeholders, including minority shareholders, must be treated fairly.
- **Responsibility**: Corporations have a responsibility towards society, including social, environmental, and economic impacts.

### KEY DEVELOPMENTS IN CORPORATE ETHICS REGULATION

India has introduced various regulatory initiatives to strengthen corporate ethics. Notable among these are amendments to the Companies Act, updates to SEBI's regulatory guidelines, and the National Guidelines on Responsible Business Conduct (NGRBC).

### A. Amendments to the Companies Act, 2013

#### i. Corporate Social Responsibility (CSR) Rules (Amendment, 2021)

The CSR Rules were amended to promote responsible business practices through mandatory corporate contributions toward social welfare. Under these rules:

- Companies with a net profit exceeding ₹5 crore are required to allocate 2% of their profits toward CSR.
- Unspent CSR funds must be transferred to a designated government fund, making CSR compliance more stringent.

- Corporations are encouraged to invest in sectors such as education, health, environmental sustainability, and rural development, aligning business objectives with social responsibility.

*Impact on Corporate Ethics*: These regulations position CSR not just as a corporate duty but as an ethical imperative. By requiring companies to invest in society, they help reshape corporate ethics, ensuring companies are more socially responsible.

**ii. Enhanced Role of Independent Directors**

To reinforce corporate accountability, recent amendments have strengthened the role of independent directors. These changes include:

- Independent directors must now pass an online proficiency test, ensuring they have the expertise to monitor and uphold ethical governance standards.
- They are encouraged to scrutinize company practices and ensure alignment with ethical guidelines, particularly in transactions that could present conflicts of interest.

*Effectiveness and Challenges*: While this amendment fosters a greater focus on ethics, challenges remain. Independent directors may face pressure from company management, and balancing oversight with impartiality can be complex.

**iii. Penal Provisions and Compliance Requirements**

Recent amendments have introduced stricter penalties for companies that fail to comply with corporate governance standards. These penalties include:

- Heavier fines for violations of ethical norms, discouraging companies from ignoring compliance requirements.
- Criminal proceedings for cases of severe non-compliance, signaling the government's strict stance on corporate governance.

**B. SEBI's Regulatory Initiatives**

SEBI has introduced several regulatory reforms aimed at listed companies, focusing on ethical behavior through transparency, accountability, and protection of shareholders' interests.

**i. Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015**

SEBI's LODR regulations require listed entities to maintain transparent financial and non-financial disclosures. In 2021, SEBI expanded LODR to emphasize environmental, social, and governance (ESG) criteria:

- Companies must disclose financial data, related-party transactions, and environmental impact to help shareholders make informed decisions.
- ESG disclosures, now mandated for India's top 1000 companies, reflect a global shift towards responsible business practices.

*Transparency and Accountability*: These disclosure norms drive ethical conduct by keeping shareholders informed, encouraging transparency, and enabling accountability.

**ii. Insider Trading Regulations (Amendment, 2021)**

SEBI strengthened its insider trading regulations to curb unethical trading practices:

- New amendments call for increased monitoring of company communications to prevent the misuse of confidential information.
- SEBI has increased penalties for insider trading and enhanced protections for whistleblowers, ensuring that individuals can report unethical practices safely.

*Impact on Market Integrity*: These regulations enhance market integrity by promoting ethical trading practices, deterring unfair advantage, and bolstering investor trust.

**iii. Related Party Transactions (RPTs)**

Stringent disclosure norms on related-party transactions ensure greater transparency in corporate dealings. Now, companies must:

- Obtain shareholder approval for material RPTs, mitigating risks of conflict of interest.
- Disclose RPT details, providing stakeholders with insights into significant corporate transactions and protecting minority shareholders.

*Reducing Conflicts of Interest*: By regulating RPTs, SEBI ensures companies prioritize ethical practices over personal gains.

**C. National Guidelines on Responsible Business Conduct (NGRBC)**

The Ministry of Corporate Affairs' NGRBC guidelines advocate for responsible corporate behavior. Introduced in 2019, they urge companies to consider social, environmental, and economic impacts in their operations:

- **Core Focus Areas**: The guidelines emphasize responsible supply chain management, employee welfare, and ethical community engagement.
- **Comply or Explain**: The guidelines operate on a "comply or explain" basis, allowing flexibility while encouraging ethical practices.

*Voluntary vs. Mandatory Compliance*: While the guidelines are voluntary, their integration into corporate policies is increasingly encouraged, and companies are being evaluated on their adherence.

## 4. WHISTLEBLOWER PROTECTIONS AND ETHICS COMMITTEES

To foster ethical reporting, Indian regulations have strengthened whistleblower protections. Under SEBI's LODR guidelines:

- Companies must implement whistleblower policies that protect individuals who report unethical practices from retaliation.
- The Prevention of Corruption Act, 2018, also extends whistleblower protections to private sector employees, promoting an environment where employees can report unethical practices without fear.

*Role of Ethics Committees*: Ethics committees within companies monitor adherence to ethical standards, handle whistleblower complaints, and address violations. They act as a safeguard for transparency and accountability.

*Challenges*: Despite improvements, challenges remain in creating a culture where employees feel safe reporting issues, especially in smaller firms with limited resources.

## 5. THE IMPACT OF THE INSOLVENCY AND BANKRUPTCY CODE (IBC), 2016

The Insolvency and Bankruptcy Code (IBC) has transformed the corporate restructuring landscape in India:

- IBC prioritizes creditors' rights, discouraging unethical practices like asset stripping.
- By mandating the equitable resolution of assets, IBC encourages companies to handle distressed assets responsibly.

*Case Studies and Practical Impact*: Notable cases like Jet Airways' restructuring demonstrate IBC's role in enforcing responsible asset management, ensuring companies avoid unethical maneuvers that jeopardize stakeholders' interests.

## 6. ETHICAL AUDITS AND COMPLIANCE CERTIFICATION

Ethical audits assess a company's adherence to responsible business practices, covering areas like:

- Labor standards and employee treatment.
- Environmental sustainability practices.
- Anti-corruption measures.

Ethical audits and compliance certifications are increasingly mandated for companies, encouraging businesses to maintain ethical operations and providing shareholders with a transparent view of the company's practices.

## 7. ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) REPORTING

SEBI's ESG reporting requirement for the top 1000 listed companies compels transparency regarding:

- Environmental policies and sustainability measures.
- Social responsibility initiatives, such as employee welfare programs.
- Governance practices that uphold ethical corporate conduct.

*Challenges*: Implementing ESG standards can be resource-intensive, particularly for smaller companies. However, with the global shift towards sustainability, India's move to mandate ESG disclosures demonstrates a commitment to long-term ethical business practises

## 8. CHALLENGES AND FUTURE DIRECTIONS

While India's regulatory framework has progressed, challenges remain:

- **Enforcement Hurdles**: Overlapping regulations can complicate compliance, and regulatory agencies may struggle to monitor ethical adherence.
- **Technological Solutions**: The future of corporate governance may see technology-driven solutions like blockchain for transparency and AI for compliance monitoring.

- **Global Comparisons**: India's evolving regulatory framework can benefit from best practices in corporate governance from the EU, US, and Japan, which could provide insights for streamlining and improving ethical compliance.

## 9. CONCLUSION

India's regulatory landscape for corporate ethics has undergone transformative changes, as seen in the enhanced Companies Act provisions, SEBI's ethical disclosure mandates, and the introduction of the NGRBC. These regulatory developments aim to promote a corporate culture grounded in integrity, transparency, and accountability. As India moves towards an ethical and sustainable business ecosystem, these regulations signal a positive shift toward fostering trust, both domestically and internationally.

The road ahead requires corporations to go beyond mere compliance and embed ethics at the core of their operations, paving the way for a corporate culture that values integrity above profits.