

We need 'Chief Governance Officers'

EMBEDDING INTEGRITY. The Compliance Officer must evolve into a Chief Governance Officer given the key role of governance in corporates, government and regulators



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As 2024 drew to a close, SEBI decreed that the Compliance Officer (CO) of a listed entity shall be an officer no more than “one level below the board of directors”. The phrase, sounding more like real estate jargon than regulatory mandate, triggered a flurry of applications to SEBI, seeking enlightenment on this corporate riddle.

Those tasked with decoding regulations and ensuring adherence found themselves seeking regulatory guidance to figure out where they're supposed to sit in the pecking order!

SEBI responded with a circular clarifying that ‘one level below the board’ refers to the organisational level below the Managing Director (MD) or Whole-time Director (WTD), or, in their absence, the Chief Executive Officer (CEO).

It further clarified through interpretive letters that this refers to the formal hierarchical level, not merely reporting relationships. Thus, an officer placed several levels lower in the organisational chart but directly reporting to the MD/WTD/CEO would not satisfy the regulatory requirement.

CLARIFICATION'S INTENT

This clarification affirms the regulatory intent: the CO must hold a position of sufficient seniority and independence, commensurate with the gravity of its responsibilities.

The clarification inadvertently conflates MD/WTD/CEO with the Board in determining the CO's hierarchical placement. This blurring of the essential conceptual and functional distinction between governance and management could have significant implications for corporate governance.

By interpreting ‘board’ to mean MD/WTD/ED, the market risks displacing the responsibility for

oversight and stewardship from the Board, where it rightfully belongs, to executive management, undermining the very architecture of accountability.

More importantly, this interpretation appears to deviate from the intent behind the regulatory change. The change stemmed from the recommendations of the “Expert Committee for Facilitating Ease of Doing Business and Harmonisation of the Provisions of ICDR and LODR Regulations.”

During consultations, stakeholders had suggested placing the CO one level below the MD/WTD/CEO to ensure that the position carries sufficient authority. However, after deliberation, the Committee recommended a further elevation, placing the CO “no more than one level below the Board”.

The rationale: the CO's authority and stature must match her pivotal role in ensuring governance. SEBI Board accepted this recommendation, and rightly so, and amended the regulations accordingly.

The divergence between the regulatory text and its subsequent interpretation highlights a broader issue often encountered in regulatory implementation. Economic regulations evolve in response to market realities, and some degree of course correction is inevitable. Such instances of interpretative drift could be minimised by the adoption of Regulatory Impact Assessment (RIA).

The current SEBI Chairperson's willingness to institutionalise RIA is a welcome move toward more coherent and effective regulation. It would improve the quality of rulemaking by ensuring that regulations are clearly understood by both the regulator and the regulated.

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Despite some drift, this marks a promising beginning. The underlying regulatory intent and direction remain sound. The objective is clear: to elevate the position of the CO to enable her to carry out her responsibilities effectively.

Under SEBI regulations, the CO bears critical responsibilities: ensuring compliance with all applicable laws in both letter and spirit, serving as the primary interface with regulators, validating the accuracy and completeness of public disclosures, and overseeing the investor grievance redressal mechanism. These are not mere procedural or mechanical tasks; they are core to “governance”, ensuring accountability, transparency, fairness, and regulatory integrity.

The CO is arguably the custodian of governance. Sitting in the boardroom as a de facto proxy for the regulator, the CO translates rules into practice, embeds ethical discipline, and prevents regulatory slippage. Compliance, in this sense, is not a subset of governance: it *is* governance in action. This is why listed entities submit a quarterly compliance report on corporate governance, signed by either the CO or the CEO, an unequivocal recognition of the CO's role and its parity in responsibility.

Recognising the centrality of the CO's role, SEBI strengthened the CO's profile further. The CO of a listed entity must: be in whole-time employment; be designated as a Key Managerial Personnel; be a qualified Company Secretary; not appointed on an interim basis, vacancy in the role must not exceed three months; and most notably, hold a position no more than one level below the Board of Directors.

CHANGING ROLES

These changes are far from cosmetic. They reflect a deeper recognition that, in an increasingly complex regulatory landscape, the role of the CO must evolve from a rule enforcer to a strategic enabler of governance. The CO is now expected to be an “alter ego” to the board, both in position and in perception. It is time for the CO to step into the role of Chief Governance Officer, one who not merely ensures compliance, but shapes, sustains, and

stewards the governance architecture of the organisation. This prompts a larger question: if governance is so central to corporate functioning that a dedicated officer is elevated to near-board status, why shouldn't the same standard apply to regulators and governments? After all, regulators and ministries are no less complex than large corporations; indeed, the stakes, particularly around conflicts of interest, can be even higher.

Regulatory failures, ethical lapses, procedural non-compliance, or the neglect of constitutional principles in the design and execution of public policy can have far-reaching consequences for citizens and institutions alike. Yet, in the government sector, the governance responsibilities remain diffused, fragmented, and often buried within bureaucratic silos, leaving a critical gap in accountability and coherence.

Taking a cue from SEBI, the government must institutionalise Chief Governance Officers in every ministry and regulatory body: officers empowered, resourced, and placed not more than one level below the cabinet/regulatory board, with a clear mandate to embed integrity, compliance, and transparency in public administration.

Governance is no longer just a corporate ideal; it is a public imperative. In a world where institutions, markets, and governments are increasingly interdependent, the need for a Governance Profession has never been more urgent. It is time to build a Governance Profession that serves both boardrooms and cabinets, blending deep domain knowledge, ethical rigour, and institutional independence.

The Compliance Officer of yesterday is the Governance Officer of tomorrow, and perhaps, the conscience keeper of the system. This is not merely a shift in roles; it is the birth of a new profession.

The idea of a governance profession has arrived, quietly, compellingly, and irreversibly. As Victor Hugo said, “Nothing is more powerful than an idea whose time has come.”

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