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An Analysis of the Failure of Corporate Governance in the IL&FS Crisis

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This paper critically examines the role and effectiveness of Board Committees in ensuring sound corporate governance under the Companies Act, 2013, with specific reference to the collapse of Infrastructure Leasing and Financial Services (IL&FS). Despite the existence of a comprehensive statutory framework mandating key board committees such as the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, and Stakeholders' Relationship Committee, the IL&FS crisis revealed serious governance failures. Using a doctrinal research methodology supported by case-based analysis, the study analyses how both internal mechanisms (board oversight, committee functioning, and director independence) and external mechanisms (auditors, credit rating agencies, and regulatory supervision) failed to prevent systemic mismanagement. The paper highlights issues such as ineffective risk assessment, compromised audit oversight, misaligned executive remuneration, and regulatory lapses. It further evaluates post-crisis reforms, particularly the recommendations of the Kotak Committee, to assess their potential in strengthening board accountability. The study concludes that mere statutory compliance is insufficient and emphasises the need for ethical implementation, competent leadership, and robust oversight to achieve effective corporate governance in India.

Keywords: *corporate governance, board committees, companies, regulatory oversight.*

INTRODUCTION

Board Committees are essential components of corporate governance. As the tasks of directors get increasingly intricate and varied, the distribution of responsibility becomes essential. The formation of various Board Committees, namely, Audit Committee, Nomination and Remuneration Committee, Stakeholders' Relationship Committee, Corporate Social Responsibility Committee, and Risk Management Committee, have been made mandatory for certain companies under the Indian company law.[1] The primary justification for this mandate is to guarantee that the Board of Directors executes its responsibilities effectively, thus preserving corporate democracy. In this rapidly evolving business landscape, committees and their functions must undergo regular evaluation. To enhance their efficacy, Board Committees must possess a suitable equilibrium of skills, experience, independence, and expertise, with members clearly understanding their roles within the relevant committee.

The OECD defines corporate governance as a mechanism to cultivate an atmosphere of trust, openness, and accountability essential for promoting financial stability, long-term investment, and company integrity, thereby facilitating enhanced growth and more inclusive societies. Although maintaining legal compliance by firms remains a primary concern for governments globally, there is an increasing emphasis on integrating robust corporate governance principles into the corporate culture. In the contemporary globalised landscape, it is essential for nations to establish and for corporations to adhere to international corporate governance standards to attract foreign investment.

Despite substantial reforms implemented by regulatory agencies in India, the incidence of company failures has not diminished markedly. Although elements concerning the composition and function of the board of directors have frequently undergone reforms, a comprehensive reassessment is currently essential to enhance their effectiveness. The government departments must make substantial efforts to prioritise substance above form. IL&FS is an Indian infrastructure Development and financing firm.

India has had numerous instances of corporate failures and scandals. While the Satyam Scam

[1] April Klein, 'Firm Performance and Board Committee Structure' (1998) 41(1) The Journal of Law & Economics <https://doi.org/10.1086/467391> accessed 12 November 2-25

and the Sahara Scandal[2] were massive, there were others too, including entities such as DHFL, Kingfisher Airlines, Punjab National Bank, and I Monetary Advisory, among others.[3] The Companies Act 2013[4] was enacted primarily to address the governance difficulties encountered by companies. It was a precursor to the necessary reform of Indian corporate law. The Act had significant repercussions, particularly in corporate governance, altering the operational dynamics of companies in India. Despite India's rigorous corporate governance regulations, the reality presents a contrasting narrative. While most corporations may have adhered to the wording of the legislation, they have not fully embraced its spirit.

The IL&FS (Infrastructure Leasing & Financial Services) scam came to light in 2018. It was one of India's biggest financial crises. It exposed deep flaws in corporate governance and regulatory oversight. IL&FS was considered a financing giant. It defaulted on several debt obligations and had a massive debt pile of over ₹90,000 crores. The defaults triggered panic across financial markets. Obviously, it affected investor confidence and exposed the vulnerability of India's non-banking financial sector. It involved over 250 subsidiaries and years of unchecked financial mismanagement. It is pertinent to note that it was backed by reputed institutional shareholders like LIC, SBI, and HDFC. The collapse was due to the failure of internal controls, weak board committee oversight, and the manipulation of financial statements. It led to nationwide scrutiny. It created a demand for stricter corporate governance mechanisms in large financial institutions.

Unique systems and techniques of corporate governance exist globally, influenced by varying social traditions, macroeconomic situations, governmental laws, and the prevalent capital and money markets in different nations. Regardless of the corporate governance systems implemented, a consistent characteristic is the acknowledgement of the Board of Directors as the core of the corporate governance framework.[5]

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[2] *Sahara India Real Estate Corp Ltd & Ors v Securities & Exchange Board of India & Anr* AIR 2012 SC 3829
[3] Jayati Sarkar, 'Board Independence & Corporate Governance in India: Recent Trends & Challenges Ahead' (2009) 44(4) Indian Journal of Industrial Relations <https://www.jstor.org/stable/27768232> accessed 16 November 2025
[4] Companies Act 2013
[5] Barry D. Baysinger and Henry N. Butler, 'Corporate Governance and the Board of Directors: Performance Effects of Changes in Board Composition' (1985) 1(1) Journal of Law, Economics, & Organization <https://www.jstor.org/stable/764908> accessed 15 November 2025

REVIEW OF LITERATURE

Barry and Butler's 'Corporate Governance and the Board of Directors: Performance Effects of Changes in Board Composition:'[6] It gives an analysis of how the board of directors, forming various board committees, are crucial in corporate governance. He highlights their roles, responsibilities, duties and liabilities as directors, which have a proportional effect on corporate governance. It helps the researcher to have an international perspective. The gap here is that this literature has very little focus on the Indian scenario.

Rajesh Chakrabarti's 'Audit Quality and Board Independence:'[7] It talks about the independence of independent directors. This literature gives the relationship between audit quality and board independence in Indian firms. It says how independent directors can enhance financial transparency. It highlights the importance of board composition. It says stronger governance mechanisms can bring effective oversight and audit reliability.

Jayati Sarkar's 'Board Independence & Corporate Governance in India: Recent Trends & Challenges Ahead:'[8] It talks about the evolution of board independence. This literature examines the IL&FS crisis as well. It explains how an incompetent board and corporate mismanagement led to the repetition of the Satyam Scandal that happened in 2009, before the Companies Act 2013. The literature discusses structural challenges and enforcement gaps affecting board effectiveness.

Prasad and Singh's 'The Good Governance: Need of the Hour:'[9] It emphasises that good governance is coupled with transparency and accountability. The article outlines key principles and global models for effective governance. This article draws examples from the U.S and U.K majorly and compares them with the Indian scenario. This article gives suggestions and recommendations to the legislature and also emphasises the ethical order of the directors.

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[6] Barry D. Baysinger and Henry N. Butler, 'Corporate Governance and the Board of Directors: Performance Effects of Changes in Board Composition' (1985) 1(1) Journal of Law, Economics, & Organization <https://www.jstor.org/stable/764908> accessed 15 November 2025

[7] Rajesh Chakrabarti, 'Audit Quality And Board Independence' (2018) 30(1) National Law School of India Review <https://www.jstor.org/stable/26743932> accessed 15 November 2025

[8] Jayati Sarkar, 'Board Independence & Corporate Governance in India: Recent Trends & Challenges Ahead' (2019) 44(4) Indian Journal of Industrial Relations

[9] Gopal Prasad Singh and Gagan Kumar Singh, 'THE GOOD GOVERNANCE : NEED OF THE HOUR' (2012) 73(2) The Indian Journal of Political Science <https://www.jstor.org/stable/41856584> accessed 15 November 2025

Murthy's 'Corporate Governance and Its Relevance to India:'[10] It critically examines the practical applicability of the statutory framework. It provides an understanding of how laws are applied and how the Companies Act 2013 is viewed from the perspective of directors. This literature also gives the challenges associated with following the present regulatory framework and the rewards of proper compliance.

RESEARCH QUESTION

1. Whether the statutory framework under the Companies Act 2013 adequately ensures corporate governance in a financial institution like IL&FS.

SCOPE AND OBJECTIVE, IMPORTANCE

The scope is to examine the internal governance structures under the Companies Act 2013, and the role of external oversight by auditors, credit rating agencies, and the RBI in the IL&FS collapse. The objective is to analyse the failure of board committees in corporate governance despite the presence of a defined regulatory framework. The IL&FS crisis shook the market's stability. It is thus important to study and strengthen corporate governance to avoid future scandals.

RESEARCH PROBLEM

After the Satyam Scandal, despite the presence of comprehensive legal frameworks and governance structures under the Companies Act 2013 and SEBI's regulations, corporate failures like IL&FS highlight issues in board committee functioning. This project investigates how internal and external corporate governance mechanisms failed in the IL&FS case.

RESEARCH METHODOLOGY

This research follows a doctrinal methodology coupled with case-based analysis. Primary sources are statutes, regulations and rules under corporate law. Primary sources also include the publicly available company records of IL&FS and orders given by NCLT in the same. The secondary sources include books, articles, journals, commentaries, newspapers, online news

[10] Narayana Murthy, 'Corporate Governance and Its Relevance to India' (2004) 31(1) India International Centre Quarterly

blogs, and scholarly opinions.

FUNCTIONS OF BOARD COMMITTEES

Board Committees are specialised sub-groups within a company's Board of Directors that are formed to ensure focused oversight of corporate governance functions. These committees enable the Board to efficiently manage financial reporting, executive appointments, risk oversight, and shareholder relations. As said above, major board committees include the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, and Stakeholders Relationship Committee. They play a vital role in upholding transparency, accountability, and strategic integrity within a company. However, in the case of Infrastructure Leasing & Financial Services (IL&FS), the failure of these committees to discharge their statutory and fiduciary duties, such as inadequate financial scrutiny, poor risk oversight, improper appointments and ineffective stakeholder engagement, resulted in systemic mismanagement. It led to its collapse and thus one of India's most significant financial scandals.

Audit Committee: The primary role of the Audit Committee is to monitor and manage the company's financial reporting process and to verify that disclosures are being made. The Audit Committee members deliberate on the extent of the audit procedures to be implemented by the company, address concerns raised by auditors regarding controls and systems of management, and, crucially, engage in resolving issues about the format and content of the company's financial statements that are published.[11] It additionally provides advice for the recruitment, reappointment, and alteration of the company's auditors.

In India, the specific regulations concerning the establishment and requirements of Audit Committees have been articulated in Regulation 18 read with Schedule II, Part C of LODR Regulations[12] and enacted in Section 177 of the Companies Act 2013[13]. Rule 6 of the Companies (Meetings of the Board and its Powers) Rules, 2014[14] requires the establishment of audit committees for all publicly listed firms that surpass the specified 'financial thresholds of paid-

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[11] Jayanthi Krishnan, 'Audit Committee Quality and Internal Control: An Empirical Analysis' (2005) 80(2) The Accounting Review <https://doi.org/10.2308/accr.2005.80.2.649> accessed 15 November 2025
[12] SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, reg 18 r/w sch II pt C
[13] Companies Act 2013, s 177
[14] Companies (Meetings of the Board and its Powers) Rules 2014, r 6

up capital, turnover, or outstanding loans, borrowings, debentures, or deposits.'[15] Each Audit Committee must operate by the written terms of reference established by the Board. The Committee shall comprise a number of directors as specified by the Board. The board must consist of no fewer than 3 directors, with a majority being independent directors, and the Chairperson must also be an independent director. Most of its members, including the Chairperson, must possess the capability to read and comprehend financial statements.[16] The Company Secretary will also serve as the secretary of this Committee.[17] The Committee must convene at least four times annually, with no more than 120 days permitted between consecutive meetings.[18] The Audit Committee may, at its discretion, summon the 'director of finance, the head of internal audit, a representative of the statutory auditor, and any other relevant executives to attend its meetings.'[19] The Audit Committee's composition must be reported in the Board's document. If the Board rejects any suggestions from the Audit Committee, reasons for such rejection must be included in the Board's report.[20]

The effective operation of the Audit Committee mitigates the agency issue between the firm's ownership and management. By enabling the systematic dissemination of accounting and accounting data collected by the Committee to diverse stakeholders, it seeks to mitigate the danger of information asymmetry. An Audit Committee is established to guarantee that a firm generates pertinent, sufficient, and reliable information for stakeholders and investors to assess the company's performance. It is essential for verifying the accuracy of the company's financial management and ensuring the accuracy and integrity of information and financial statements utilised by the Board and external parties.[21]

Nomination and Remuneration Committee: The Nomination and Remuneration Committee is tasked with appointing new directors to the Board of Directors, authorising executive salaries, and managing management succession plans. The primary function of the remuneration committee is to establish a suitable compensation strategy that effectively attracts,

[15] Joseph V. Carcello, and Terry L. Neal, 'Audit Committee Composition and Auditor Reporting' (2000) 75(4) The Accounting Review <https://www.jstor.org/stable/248624> accessed 15 November 2025
[16] Companies Act 2013, s 177(2)
[17] SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, reg 18(1)(e)
[18] SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, reg 18(2)(a)
[19] SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, reg 18(1)(f)
[20] Companies Act 2013, s 172(8)
[21] Pankaj M. Madhani, 'Study of Relationship between Board Committees and Corporate Governance Practices of Indian Firms' (2015) 9(3) Global Management Review

retains, and motivates directors to fulfil the company's long-term objectives.[22] Committee members must be attuned to broader community problems.

Formation of Nomination and Remuneration Committee has been made mandatory as per Regulation 19 read with Schedule II, Part D of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.[23] This Committee shall consist of a minimum of three non-executive directors, with independent directors forming a majority. The Chairperson (whether executive or non-executive) of the company may be appointed as a member of the Nomination and Remuneration Committee, but shall not be the chairperson of this Committee.[24] The Committee shall also formulate the criteria for determining the qualifications, positive attributes and independence of a director and recommend to the Board a policy relating to the remuneration for the directors, key managerial personnel and other employees.[25]

The remuneration ought to ideally correspond to the time involvement and duties of the board members. They must also be congruent with the company's mission and values. The Committee needs to follow a transparent process. This is because pay for executives is an important concern for stockholders and regulators. Some companies abused the pay of their executives, which led to reforms in corporate governance around the world. To make sure fair and responsible pay, the Committee should use its independence for judgement. The Nomination Committee makes sure that the process for appointing board members and top management is formal, fair, and relies on specific requirements. Directors should be paid enough to get and keep good employees, but not excessively. The Remuneration Committee's job is to keep agency costs low and pay fairly. The company can better choose directors who really look out for the interests of shareholders if the nomination process is kept separate from the rest of the board.

Stakeholder's Relationship Committee: In light of the increasing significance of stakeholders' interests, firms in numerous countries have established 'Stakeholders' Relationship Committees' as a demonstration of effective corporate governance. Sub-Section (5)

[22] Lakhwinder Singh Kang, and Payal, 'Independence of Remuneration Committee & Executive Remuneration in India' (2016) 52(1) Indian Journal of Industrial Relations <https://www.jstor.org/stable/43974595> accessed 15 November 2025

[23] SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, reg 19 r/w sch II pt D

[24] Companies Act 2013, s 178(1)

[25] Companies Act 2013, s 178(3)

of Section 178 of the Companies Act 2013[26] provides that the Board of Directors of a company which consists of more than one thousand shareholders, debenture-holders, deposit-holders, and any other security holders at any time during a financial year shall constitute a Stakeholders Relationship Committee. It shall comprise a chairperson who shall be a non-executive director and such other members as may be decided by the Board. The primary objective is to oversee the company's interactions with its diverse stakeholders. It is tasked with supervising the process for addressing grievances of security holders and shareholders, which may encompass complaints related to non-receipt of announced dividends, non-receipt of the annual report, and share transfers.[27] This Committee thus guarantees a uniform and ongoing interaction between the organisation and its stakeholders.

Risk Management Committee: To thrive and maintain profitability in a competitive business landscape, organisations must conduct a comprehensive evaluation of new and anticipated risks. The Board must outline the company's primary risks in its annual report, detailing the procedures for identifying these risks and explaining how they are handled or mitigated by the Risk Management Committee. Clause 49 of the Listing Agreement mandates that the company, via its Board of Directors, establish a Risk Management Committee.[28] The Board of Directors is accountable for formulating, executing, and overseeing the company's risk management plan. Moreover, the Board possesses the authority to delineate the functions and obligations of the Risk Management Committee. The Risk Management Committee shall ordinarily consist of a majority of the Board of Directors. The majority of the Committee shall be formed by the members of the Board of Directors.[29] Additionally, the Committee is required to be chaired by a member of the Board of Directors. However, senior executives of the company may also be made members of this Committee.[30]

[26] Companies Act 2013, s 178(5)
[27] Irene M Herremans et al., 'Stakeholder Relationships, Engagement, and Sustainability Reporting' (2019) 138(3) Journal of Business Ethics <https://doi.org/10.1007/s10551-015-2634-0> accessed 15 November 2025
[28] Hatice Uzun et al. 'Board Composition and Corporate Fraud' (2004) 60(3) Financial Analysts Journal <https://doi.org/10.2469/faj.v60.n3.2619> accessed 15 November 2025
[29] SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, reg 21(1)
[30] SEBI (Listing Obligations and Disclosure Requirements) Regulatios 2015, reg 21(3)

CORPORATE COLLAPSE AND GOVERNANCE GAPS: IL&FS

The Beginning: The collapse began for IL&FS in July 2018 when two of its subsidiaries failed to repay loans to banks and other companies. In September, it was reported that IL&FS was struggling to repay around ₹1,000 crore to the Small Industries Development Bank of India (SIDBI). Also, IL&FS Financial Services Limited (IFIN), being its non-banking financial company (NBFC) arm, was unable to pay back its commercial papers (a type of short-term borrowing). IL&FS failed to meet many of its financial commitments. The Reserve Bank of India (RBI) stepped in to assess the situation and evaluate how well the company was being managed. Defaults kept piling up. The government stepped in to prevent a major financial crisis like the collapse of Lehman Brothers in the U.S. (a firm that went bankrupt because of risky lending and high debt). It quickly removed the top management of IL&FS and appointed a new board, with Uday Kotak as the head.

Corporate Misgovernance: The newly established board announced the identification of 348 companies, which is more than the prior disclosure of 250 companies initially. The debt was reported to be ₹91,000 crores in the financial year 2017-18. The accumulation of such a substantial debt within a year indicates significant mismanagement and an effort to conceal the precarious financial situation. It was mere misgovernance. A significant asset-liability mismatch occurred when short-term money was allocated to long-term initiatives. Due to insufficient funding from banks relative to its expanding needs, given its extensive and intricate structure, it began to depend heavily on commercial paper (CP) for long-term requirements as well. CPs are promissory notes with a maximum maturity of 270 days.

The rating agency ICRA assigned a AAA rating to non-convertible debentures, which remained in effect until August 2018, when it was lowered by multiple notches due to a series of defaults in fulfilling commitments. The RBI, with which IL&FS was registered, remained unaware of the crisis until September 2018, indicating a supervisory failure on the part of the RBI and allowing the mismanagement at IL&FS to persist unabated.

The auditors failed to identify any irregularities that would necessitate quick intervention. In the IL&FS case, the auditors exhibited significant dereliction of duty, as articulated by Ministry of Corporate Affairs (MCA) Secretary Injeti Srinivas: We do not expect an auditor to identify a needle in a haystack, but they should certainly recognise an elephant in the room.[31] The compensation of the chairman (managing director), vice-chairman, and CEO rose significantly from 2015 to 2018. This was the time when the company was experiencing stagnation and diminishing earnings. The Nomination and Remuneration Committee (NRC), including nominated and independent directors, opted to reward underperforming individuals with significant remuneration rather than replacing them.

IL&FS had five esteemed independent directors on its board: R C Bhargava (chairman of Maruti), Michael Pinto (a former secretary for Shipping), a former chairman of LIC, and two other distinguished experts. Ultimately, they were all bureaucrats engaging with the government, without the competence and ingenuity to address fraud and mismanagement.[32] Despite their elevated status, they were unsuitable for IL&FS due to a lack of experience in infrastructure financing. Although there exists a repository of independent directors curated by agencies sanctioned by the Ministry of Corporate Affairs (MCA), the Board must determine which individuals are appropriate for their specific business. The independent directors of IL&FS lacked the necessary experience, rendering them unsuitable for the financial and lending sector, as seen by their inability to manage the crisis effectively.[33] Independent directors were retained primarily to fulfill the mandatory legal obligation rather than to actively monitor for inappropriate circumstances.

Grant Thornton was engaged to conduct a special audit titled 'Project Icarus' and identified numerous anomalies. Some of these were 'ever-greening' (a practice where loans are used to repay previous loans, which is prohibited by RBI), 'round-tripping' (by first borrowing and then lending to own subsidiaries either directly or through third parties even after being fully aware of their financial status), loans being advanced to 'stressed companies' not approved by the 'risk

[31] 'IL&FS crisis: ED files first chargesheet in the case; attaches assets worth Rs 570 crore' Business Today (17 August 2019) <https://www.businesstoday.in/latest/corporate/story/ilfs-crisis-ed-enforcement-directorate-files-first-chargesheet-in-the-case-attaches-assets-worth-rs-570-crore-221848-2019-08-17> accessed 16 November 2025

[32] 'IL&FS scam: Here is the list of key players and allegations they are facing' *Business Standard* (04 June 2019) <https://www.business-standard.com/article/companies/il-fs-scam-here-is-the-list-of-key-players-and-allegations-they-are-facing-119060401390_1.html> accessed 16 November 2025

[33] David B. Farber, 'Restoring Trust after Fraud: Does Corporate Governance Matter?' (2005) 80(2) The Accounting Review <https://doi.org/10.2308/accr.2005.80.2.539> accessed 15 November 2025

management team', lending at abysmally low cost, even 'less than the borrowing rate', loans granted 'without collaterals', 'loans transferred to promoters' etc.

AN ANALYSIS

Corporate governance procedures comprise both internal and external sources. Internal mechanisms, specifically the 'board of directors, ownership structure, and managerial incentives', have been disproportionately emphasised in corporate governance research. Instances of external corporate governance processes that exert control from outside include the rating agencies, external auditors, and legal system, among others.

The IL&FS case exhibited a breakdown of internal procedures, resulting in an 'agency dilemma' as directors prioritised their self-interest by seeking substantial remuneration. They failed to fulfil their fiduciary obligation to act in the corporation's best interest. This is nothing but a corporate opportunity. Agency costs are reflected in: The account statements of IL&FS showing profits from 2015-2018 whereas if consolidated group accounts were to be seen, they were showing continuous losses; the directors carrying away huge amount of remuneration by showing good performance whereas there was a huge asset-liability mismatch, short-term funds like CPs were used to finance long-term projects and evergreening of loans took place.

The significance in finance and investment enterprises is in determining which clients possessed sufficient creditworthiness, a process that was not conducted from 2015 until the emergence of the crisis. Despite the risk management committee classifying a borrower as subprime, loans were issued that were subsequently repaid by entities to which funds were allocated for this purpose. The external mechanisms at IL&FS, such as the external auditors KPMG and Deloitte, the supervisory role of the RBI and the credit rating agencies ICRA, failed to significantly mitigate the problem.

RBI did not take any action when IFIN did not conform and take measures in accordance with RBI's inspection report, even though it had raised red flags in 2015 regarding IFIN lending to group companies for evergreening and incorrect calculations of net owned funds. Had the Reserve Bank of India intervened promptly, the circumstances would not have risen to such alarming levels. Deloitte Haskins & Sells LLP, the company's auditors, should have emphasised the RBI's observation in its inspection report regarding the overleverage of IFIN. Additionally, they neglected to disclose unfavourable key financial ratios and negative cash flows in their report. Firms that were unable to satisfy their debt obligations were granted loans by IFIN.

Further, it granted loans to the defaulters' group companies to repay the previous loans, so as not classify them as bad loans. The auditors also did not disclose the end use of funds that were raised by debentures of IFIN, which they are supposed to according to norms. They did not use analytical tools which auditors typically use during their audit, and no attention was given to the statements made by RBI during the inspection. The rating agency ICRA gave A+ and AAA ratings to its commercial paper and non-convertible debentures as late as March 2018, just about a few months before it reached an impasse, caused by a series of non- payments and not meeting commitments at a stretch. The share of IL&FS in the funds disbursed by banks to the total NBFC sector was quite high.

The rating agencies should have considered this huge 'public interest' involved while going so casually in their ratings. The rating agencies are expected to make an independent professional assessment of the expertise they possess. They failed to fulfil their duty and relied instead on their impressive 'institutional parentage'. Along with this, it was a well-known fact that the risk management committee of ILFS did not meet after 2015, the risk management committee being a crucial committee in a business involving lending funds. The rating agency chose to turn a blind eye to all these facts and kept on rewarding them with high ratings.

AN ANALYSIS OF KOTAK COMMITTEE RECOMMENDATIONS

In light of the scandal, SEBI created the Kotak Committee on Corporate Governance. I was chaired by Udhay Kotak. It also had regulators, exchange representatives, lawyers and academicians. The suggested ways to strengthen how listed companies are run. The committee gave 81 recommendations. SEBI accepted 40 of these right away, it tweaked 15, and it rejected 18. The rest were passed on to other bodies.

Committee Meetings: It was advised to augment the frequency of board meetings from four to five for audit committees, and to conduct a minimum of one meeting for all other obligatory board committees. The justification for this approach was that, under current legislation, Audit Committees are typically associated with quarterly financial outcomes, with the majority of discussions focusing on financial and other regulatory compliance issues. Furthermore, to ensure that other committees execute their assigned responsibilities rather than merely fulfilling statutory requirements, it was advised that a minimum of one meeting be scheduled for all other obligatory board committees. SEBI rejected the proposal to increase the frequency of Audit Committee meetings; however, it revised Regulations 19, 20, and 21 of the LODR Regulations to incorporate the recommendation for at least one annual meeting of the Nomination and Remuneration Committee, the Stakeholders Relationship Committee, and the Risk Management Committee.

Audit Committee: The Committee advised that the audit committee must also evaluate the allocation of funds from the listed entity to unlisted subsidiaries, including foreign subsidiaries, when the cumulative loans, advances, or investments surpass Rs. 100 crore or 10% of the subsidiary's asset size, whichever is lesser. SEBI approved this request with a slight modification, incorporating a new sub-clause (21) into Schedule II, Part C, Clause A of the LODR Regulations. The Committee suggested that the Nomination and Remuneration Committee should consist of at least two-thirds Independent directors, aligning with a matching condition for the Audit Committee.

Nomination and Remuneration Committee: The Kotak Committee advised that a definition be established for individuals classified as 'senior management'. Additionally, the LODR Regulations shall stipulate that all compensations provided to senior management, in any form, must be proposed by the Nomination and Remuneration Committee to the Board of the listed entity. SEBI accepted this advice as it included a new sub-paragraph (6) in clause A of Schedule II, Part D of the LODR Regulations.

Committee Meeting Quorum: To safeguard the interests of all stakeholders, particularly minority shareholders, it is advised that a minimum of 1 independent director be mandated for achieving quorum at meetings of each committee of the board. SEBI has approved the recommendation regarding quorum requirements for the Nomination and Remuneration Committee, resulting in the insertion of a new sub-regulation (2A) in Regulation 19 of the LODR Regulations. An analogous adjustment has been implemented concerning the Stakeholders Relationship Committee, by the addition of a new 'sub-regulation (2A) in Regulation 20 of the LODR Regulations.'

Risk Management Committee: It was advised to broaden the mandate of the Risk Management Committee to encompass the top 500 listed businesses by market capitalisation, as opposed to the present scope, limited to the top 100 listed entities. Moreover, in light of the growing significance of cybersecurity and associated risks, the responsibilities of the Risk Management Committee will explicitly encompass this dimension. This was likewise approved by SEBI.

IT Committee: The Kotak Committee proposed the establishment of an information technology committee dedicated to digital and technological facets of the business. The majority of these improvements are currently implemented. It indicates SEBI's conviction that robust, well-organised committees are essential for effective governance. These reforms seek to level up meeting requirements, explain roles, and strengthen membership regulations, which will shift committees from mere compliance to authentic monitoring. These improvements focus on the core of board oversight. It ensures committees convene consistently, have appropriate expertise, and have explicit responsibilities. SEBI is mitigating the risk of committees being mere rubber stamps by requiring annual meetings and establishing minimum quorums. Enhancing the Audit Committee's oversight of subsidiaries and broadening the scope of risk committees to more enterprises will facilitate earlier detection of issues. The true challenge resides in execution. The boards must select genuinely competent independent directors. It should grant them substantial responsibility. Also, it should cultivate an environment in which committee chairmen actively involve every member. Only then can these regulations transform board committees from procedural entities into catalysts for accountability and strategic direction.

CONCLUSION

The previous scandal that shook the country was the Satyam Scandal that happened in 2009. Later, the Companies Act, 2013, was brought in to prevent such scams from happening in the future. But it is pertinent to note that the Sathyam Scandal and the IL&FS crisis are two parallels that are very close to each other. In both cases, financial fraud and mismanagement are visible. There is still a gap in corporate governance. Internal governance mechanisms, such as the board of directors, do not operate in isolation, and external factors play an essential role in determining directly and indirectly the effectiveness of a firm's governance.

But, following the board meeting on September 15, 2018, it was reported that Sunil B. Mathur, a former chairman of LIC, will succeed Hemant Bhargava as chairman of the IL&FS board. It is somewhat amusing that an independent director, who has been on the board since January 2005 and presided over a prolonged period of mismanagement, has been elevated to the position of chairman.

To make board committees more effective, companies should choose members with the right skills, experience, and diversity. Each committee must clearly define its duties, roles, responsibilities, and reporting process regularly. New members should be properly guided. There should be planning for replacements in future. The chairperson should encourage teamwork and ensure minorities are heard. The committee's work should always support the company's overall goals lawfully.

A dedicated department or agency may be established under the RBI to regulate NBFCs, which have now attained considerable scale and substantial commercial volume. The RBI's responsibilities are overwhelming, necessitating delegation to provide effective oversight of NBFCs. The appropriateness of independent directors for the company must be evaluated, and the board should substantiate their relevance to the company's operations when recommending their names, ensuring that the independent directors can provide meaningful contributions rather than merely serving as ceremonial figures to meet regulatory requirements.

Auditors and rating agencies play a significant role in relation to investors. An audit provides reasonable assurance, though not absolute, that financial statements are free from serious misstatements resulting from error or fraud. Therefore, the audit holds significant relevance for owners and other consumers of financial accounts, including creditors, regulators, and analysts. An auditor must exercise professional scepticism while executing their responsibilities. Auditors who neglect their responsibilities should face stringent oversight and sanctions to ensure they do their audits in a reliable and trustworthy manner. Likewise, the rating agencies disappointed the investors who depended on their assessments when investing their hard-earned capital in IL&FS. An evaluation by an independent agency, which provides a specialist assessment of the corporation's capacity to fulfil its financial obligations as they arise, informs investors and creditors regarding their creditworthiness. Stringent penalties ought to be enforced for such transgressions to prevent the unjust suffering of innocent investors. An augmented role should be designated to external auditors and rating agencies, representing the external mechanisms of company governance, rather than excessively depending on internal mechanisms. External routes will enhance the efficacy of internal channels, hence improving total company governance.

The IL&FS crisis shows that statutory compliance does not guarantee ethical governance. While board committees exist to promote accountability, their failure in the above case highlights a systemic gap in both internal vigilance and external regulation. Robust governance requires more than frameworks. It needs the right individuals with expertise, independence, and a culture of questioning authority. Regulatory reforms post-Kotak Committee show promise. But their success hinges on sincere implementation, and also on an active oversight mechanism. The future of corporate integrity in India will be determined not by rules alone, but by enforcing it ethically.