

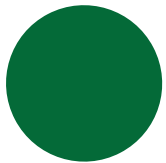
Recent Changes in Listing Regulations



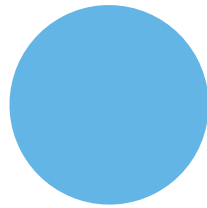
Background

Background - Corporate Governance of Listed Entities

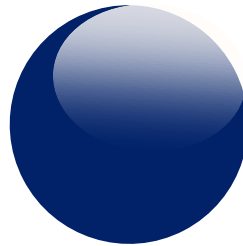
LODR was notified on September 02, 2015. Most of the provisions commenced from December 01, 2015



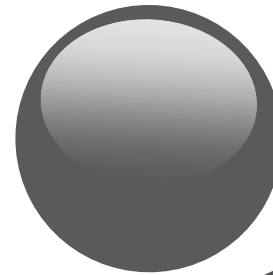
SEBI formed a committee on corporate governance in June 2017 under the Chairmanship of Mr. Uday Kotak



SEBI issued report of Committee on Corporate Governance for public comments on October 05, 2017



SEBI Issued SEBI (LODR) (Amendment) Regulations, 2018 based on recommendation of report of Committee on Corporate Governance on May 9, 2018



Key Highlights

Key Highlights



Key Changes- Board Composition

Woman ID

- **Effective April 1, 2019:** Top 500 listed entities by market capitalization to have at least 1 ID woman director on the Board
- **Effective April 1, 2020:** Top 1000 listed entities by market capitalization to have at least 1 ID woman director on the Board

Minimum number of directors

- **Effective April 1, 2019 :** Board of top 1000 listed entities by market capitalization shall consist of least 6 Directors
- **Effective April 1, 2020 :** Board of top 2000 listed entities by market capitalization shall consist of least 6 Directors

Maximum Directorship

- **Effective April 1, 2019 :** - 8 Listed Entities
- **Effective April 1, 2020 :** 7 Listed Entities

(Formerly governed by CA 2013/ 1956)

Appointment/Continuation of NED of > 75 Yrs. require SR (w.e.f April 1, 2019)

No listed entity shall appoint / continue with the directorship of any person as a non-executive director (NED) who has attained the age of 75 years unless a special resolution is passed to that effect.

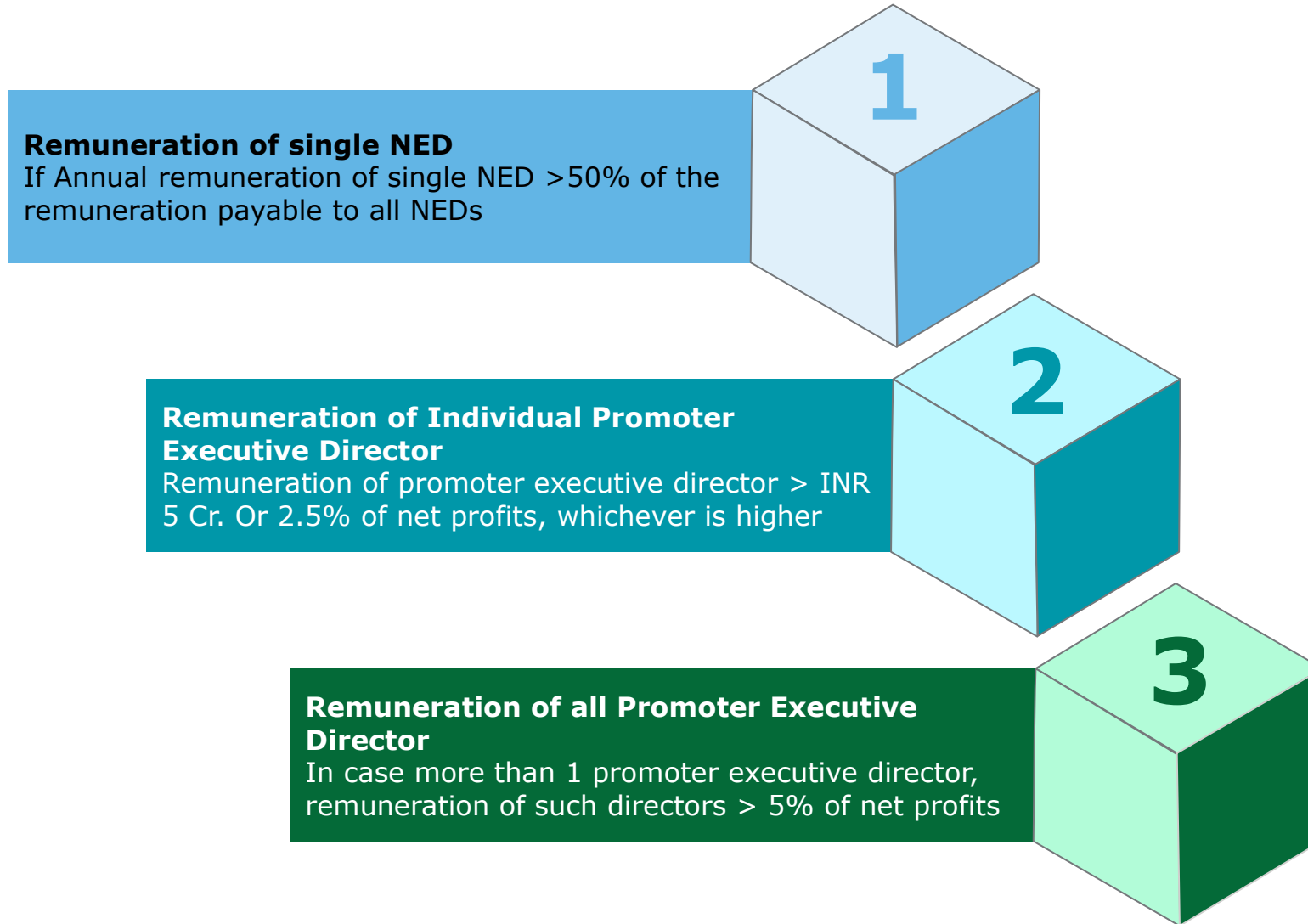
Chairperson of Board

(Effective April 1, 2020)

- Top 500 listed entities by market capitalization to have Chairperson who is non-executive director and not related to MD/CEO of the Company.
- Listed entities which does not have identifiable promoters shall be exempt from the above regulation

Remuneration of Directors

Requirement of Special Resolution (Effective April 1, 2019)



Independent Directors- Definition

"Independent director" means a non-executive director, other than a nominee director of the listed entity:

- (i) who, in the opinion of the board of directors, is a person of integrity and possesses relevant expertise and experience;
- (ii) who is or was not a promoter of the listed entity or its holding, subsidiary or associate company **or members of promoter group of the listed entity;**
- (iii) who is not related to promoters or directors in the listed entity, its holding, subsidiary or associate company;
- (iv) who, apart from receiving director's remuneration, has or had no material pecuniary relationship with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;
- (v) none of whose relatives has or had pecuniary relationship or transaction with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, amounting to two per cent. or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed from time to time, whichever is lower, during the two immediately preceding financial years or during the current financial year;
- (vi) who, neither himself, nor whose relative(s) —
 - (A) holds or has held the position of a key managerial personnel or is or has been an employee of the listed entity or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;
 - (B) is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of —
 - (1) a firm of auditors or company secretaries in practice or cost auditors of the listed entity or its holding, subsidiary or associate company; or
 - (2) any legal or a consulting firm that has or had any transaction with the listed entity, its holding, subsidiary or associate company amounting to ten per cent or more of the gross turnover of such firm;
 - (C) holds together with his relatives two per cent or more of the total voting power of the listed entity; or
 - (D) is a chief executive or director, by whatever name called, of any non-profit organisation that receives twenty-five per cent or more of its receipts or corpus from the listed entity, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent or more of the total voting power of the listed entity;
 - (E) is a material supplier, service provider or customer or a lessor or lessee of the listed entity;
- (vii) who is not less than 21 years of age;
- (viii) **who is not a non-independent director of another company on the board of which any non-independent director of the listed entity is an independent director:"**

Independent Directors- Definition cont....



Independent Directors

Key Changes

Compliance

From October 1, 2018: D&O Insurance Policy

- **D&O Insurance:** Top 500 listed entity by market capitalization calculated as on March 31 of preceding financial year , shall undertake Directors and Office Insurance for all their independent director of such quantum and for such risks as may be determined by its board of directors.
- **Prohibition on appointment of AD for ID:** No person to be appointed or continue as alternate director for ID.

From April 1, 2019: Declarations by IDs

- Each ID would submit a declaration w.r.t his eligibility criteria of independence and that he is not aware of any circumstance or situation, which exist or may be reasonably anticipated, that could impair or impact his ability to discharge his duties with an objective independent judgment and without any external influence, on following occasions:
 - **Initial:** At the first meeting of board in which he / she is a director;
 - **Annual:** At the first meeting of board in every financial year;
 - **Change in status:** Whenever there is any change in the circumstances which may affect his/her status as an independent director.
- Board to take on record the declaration under the amended regulations after undertaking the due assessment of the veracity of the same.
- Appointment of atleast 1 ID of a listed entity as a director on the board of an unlisted material subsidiary in or outside India
- Reasons of resignation of ID alongwith his/her confirmation to be disclosed to:
 - SEs within 7 days ; and
 - Annual Return

Committees

Key Changes (Effective April 1, 2019)

Audit Committee

Key Changes:-

- To review the utilization of loans and / or advances from /investment by the holding company in the subsidiary exceeding INR 100 crore or 10% of the asset size of the subsidiary, whichever is lower.

Nomination & Remuneration Committee

Key Changes:-

- 1/3rd of the total strength or 2 members, whichever is higher including at least 1 ID shall be Quorum
- At least 1 meeting in a year
- NRC to recommend to Board remuneration of SMPs

Stakeholder Relationship Committee

Key Changes:-

- SRC to comprise of at least 3 directors with at least 1 ID;
- SRC to specifically look into the matter of interest of shareholders, debenture holders and other security holders
- Chairperson of SRC to be present at AGM to answer queries of shareholders
- New Roles and Responsibilities prescribed fro SRC
- At least 1 meeting in a year

Risk Management Committee

Key Changes:-

- RMC to be constituted by top 500 Companies (instead of 100)
- Role of RMC to include cyber security.
- At least 1 meeting in a year.

Senior Management Personnel

Key Changes (Effective April 1, 2019)

Definition:- “senior management” shall mean officers/personnel of the listed entity who are members of its core management team excluding board of directors and normally this shall comprise all members of management one level below the ~~executive directors including all functional heads~~ **chief executive officer/managing director/whole time director/manager (including chief executive officer/manager, in case they are not part of the board) and shall specifically include company secretary and chief financial officer.**

- NRC to recommend to Board, all remuneration payable to SMPs.

Key Action:-

- Listed entities to align their NRC policy with amendments;
- NRC to recommend remuneration of SMPs to Board.

Related Party

Key Changes (Effective April 1, 2019)

Definition:- “related party” means a related party as defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the applicable accounting standards:

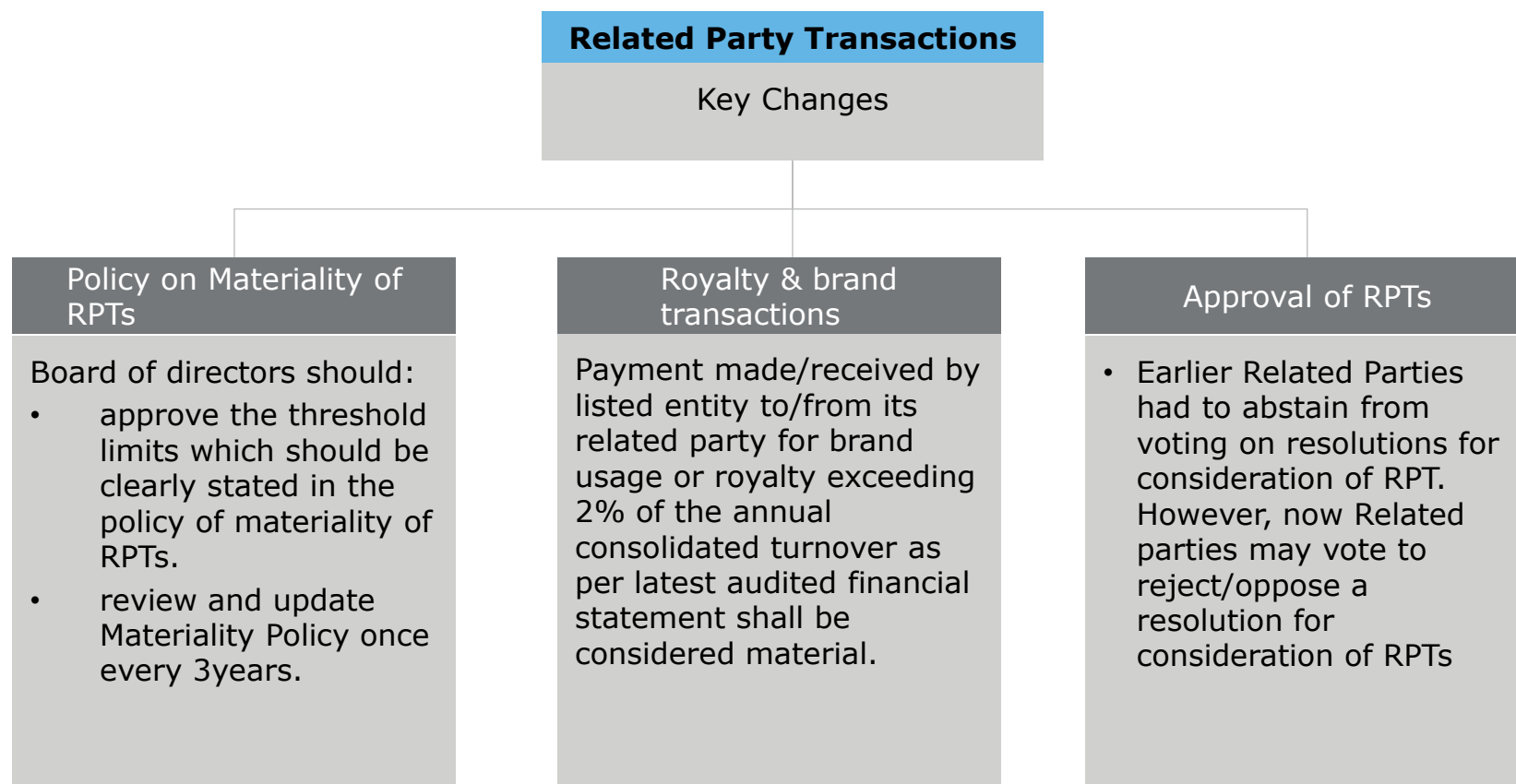
Provided that any person or entity belonging to the promoter or promoter group of the listed entity and holding 20% or more of shareholding in the listed entity shall be deemed to be a related party.

Provided *further* that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s).

Key Change:- Definition of related party to include persons belonging to promoter or promoter group and holding 20% or more of shareholding in the listed entity.

Related Party Transactions

Key Changes (Effective April 1, 2019)



Related Party Transactions : Disclosure

Key Changes (Effective Half Yearly Ending March 31, 2019)

- Half Yearly Disclosure of RPT on consolidated basis on website;
- Within 30 days from date of publishing of standalone and consolidated financial result;

- Disclosures of transactions of the listed entity with any person or entity belonging to the promoter or promoter group which hold(s) 10% or more shareholding in the listed entity in its Annual Report.
- This disclosure should also be in the format prescribed in the relevant accounting standards for annual results.

Financial Results

Key Changes (Effective April 1, 2019)

Results of last quarter

Key Changes:-

- Requirement of getting the financial results of the last quarter audited before submission relaxed and Company may submitted financial results of the last quarter with limited review report when the listed entity submits them along with the results for the entire financial year.

Half yearly cash flow statement

Key Changes:-

- Submission, by way of a note, a statement of cash flows for the half-year as part of its standalone and consolidated financial results for the half-year.

Audit/Limited review of consolidated financial results

Key Changes:-

- In case of quarterly consolidated financial results, at least 80% of each of the consolidated revenue, assets and profits, respectively shall have been subject to audit or in case of unaudited results, subjected to limited review.

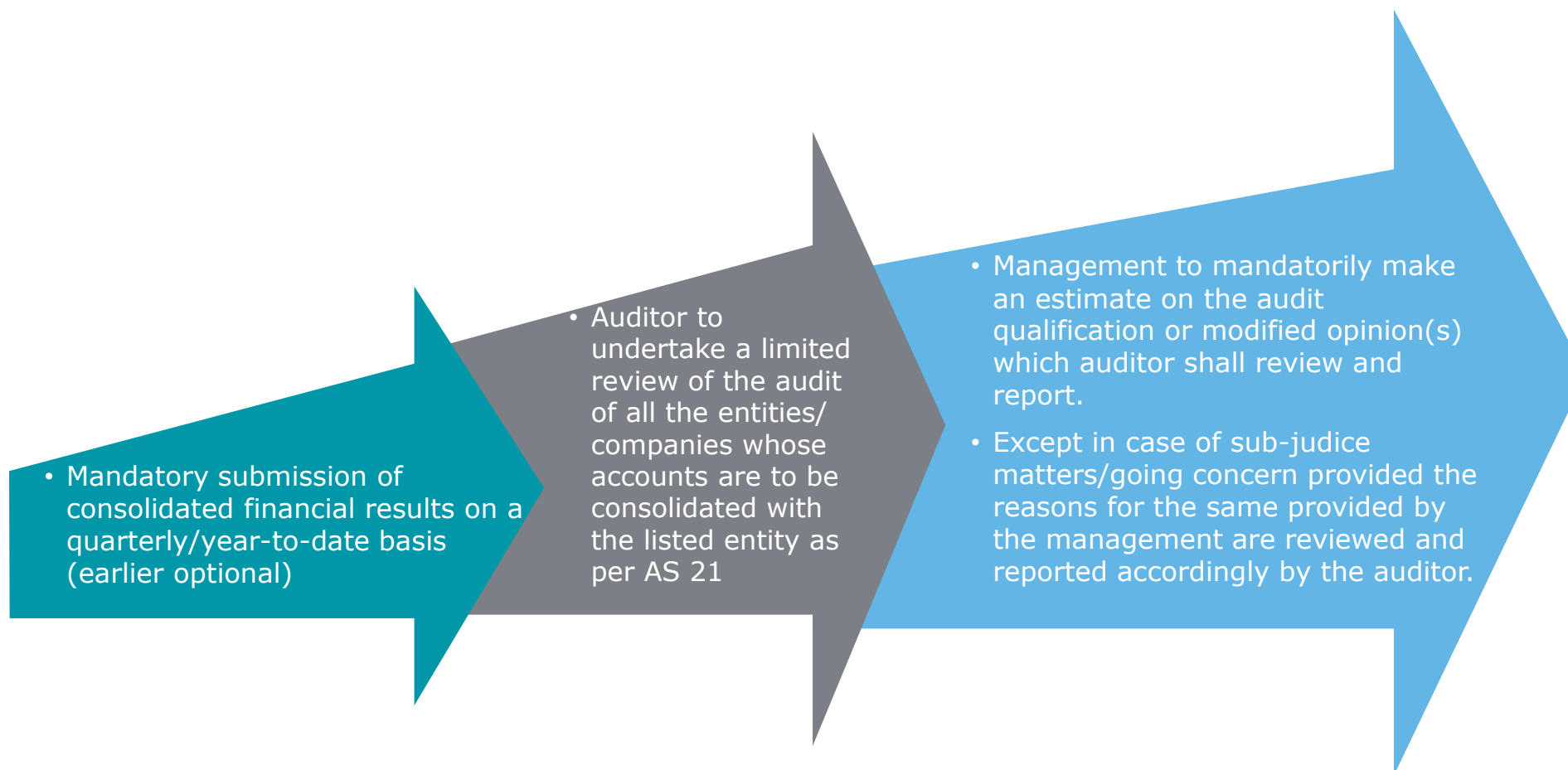
Material changes in results of last quarter pertaining to prior period adjustment

Key Changes:-

- listed entity to disclose by way of a note in the last quarter financial results, the aggregate effect of material adjustments, which pertain to earlier periods, made in the results of that quarter.

Financial Results : Others

Key Changes (Effective April 1, 2019)



Subsidiaries of Listed Entities

Key Changes

- **Definition of Material Subsidiary:** Now the definition of a material subsidiary will include a subsidiary whose income or net worth exceeds 10% (**from the current 20%**) of the consolidated income or net worth respectively of the listed entity and its subsidiaries in the immediately preceding accounting year(**Effective April 1, 2019**);
- **Significant transaction or arrangement:** The management of the unlisted subsidiary should periodically bring to the notice of the Board of the listed entity, a statement of all significant transactions and arrangements entered into by all unlisted subsidiaries (currently the disclosure is required for material subsidiaries) (**Effective April 1, 2019**);
- Listed entity and material unlisted subsidiaries incorporated in India shall undertake secretarial audit and shall annex with its annual report , a secretarial audit report given by PCS (**Effective year Ended March 31, 2019**).
- Where the listed entity has a large number of unlisted subsidiaries: (**Effective May 10, 2018**)
 - The listed entity may monitor their governance through a dedicated group governance unit or Governance Committee comprising the members of its board of directors.
 - A strong and effective group governance policy may be established by the entity
 - The decision of setting up of such a unit/committee or having such a policy shall lie with the board of directors of the listed entity.

Other Provisions

Key Changes (Effective April 1, 2019)

Meeting of Board / Shareholder

- Top 100 listed entities by market capitalization shall hold AGM within 5 months from closing of financial year and provide one-way live webcast of the proceeding (**Effective April 1, 2019**)
- The quorum for every meeting of the board of directors shall be one-third of its total strength or three directors, whichever is higher, including at least one independent director for :
 - a. **Top 1000 listed entities : Effective April 1, 2019**
 - b. **Top 2000 listed entities : Effective April 1, 2020**
- Explanatory Statement to be annexed to the notice of shareholder meeting for each item of special business to be transacted shall also set forth clearly the recommendation of the board to the shareholders on each of the specific items (**Effective April 1, 2019**)
- Explanatory statement to the notice of annual general meeting where the auditor(s) is/are proposed to be appointed shall include the proposed fees payable, any material change in the fee payable from that of the outgoing auditor along with the rationale for such change. The terms of appointment and basis of recommendation including their credentials shall also be disclosed(**Effective April 1, 2019**).
- **Website**
 - To maintain a separate section for investors on its website and provide all the information mandated under the Regulation therein (**Effective April 1, 2019**)
 - Regulation 46 of SEBI (LODR) Regulations in a separate section.
 - Listed Entity shall disseminate following additional information on its website :
 - a. Revision in credit rating be updated immediately (with effect from October 1, 2018);
 - b. Separate audited financial statements of each subsidiary be uploaded at least 21 days prior to AGM (April 1, 2019)

Other Provisions

Key Changes (Effective April 1, 2019)

- **Annual Report (From year ended March 31, 2019) :**

Submit to the stock exchange and publish on its website-

- a. a copy of the annual report sent to the shareholders along with the notice of the annual general meeting not later than the day of commencement of dispatch to its shareholders (earlier requirement of 21 days after adoption of AGM);
- b. in the event of any changes to the annual report, the revised copy along with the details of and explanation for the changes shall be sent not later than 48 hours after the annual general meeting.
- c. Soft copies of full annual report to all those shareholder(s) who have registered their email address(es) with listed entity or with any depository (earlier the requirement was for those who have provided their email for this purpose)
- d. Following additional disclosure in Annual Report :
 - Under the head Management Discussion and Analysis with respect to key financial ratios and change in return or net worth as compared to immediately previous financial year along with a detailed explanation thereof.
 - Utilisation of funds raised through preferential allotment or qualified imitational placement and directors of the Company.
 - Disclosure on Board of Directors in Corporate Governance Report setting out the skills/expertise/competence of the board of directors, confirmation on independence of the independent directors and detailed reasons for the resignation of an independent director who resigns before the expiry of his tenure along with a confirmation by such director that there are no other material reasons other than those provided.
 - List of all credit ratings obtained by the entity along with any revisions thereto during the relevant financial year, for all debt instruments or any fixed deposit programme or any scheme or proposal of the listed entity involving mobilization of funds, whether in India or abroad

Other Provisions

Key Changes (Effective April 1, 2019)

Other Disclosures

- The listed entity may consider the following as a part of its disclosures on board evaluation **(Effective May 10, 2018)**
 - i. Observations of board evaluation carried out for the year.
 - ii. Previous year's observations and actions taken.
 - iii. Proposed actions based on current year observations.
- Earlier exemption provided to listed entities for non filing of intimation to stock exchange in case bonus issue is not part of agenda has been withdrawn **(Effective October 1, 2018);**
- In case of resignation of the auditor of the listed entity, detailed reasons shall be disclosed to the stock exchanges as soon as possible but not later than twenty four hours of receipt of such reasons from the auditor **(Effective April 1, 2019).**

Discussion



Atul Mittal
98100 65744
atulmittal@deloitte.com