

# Kotak Committee on Corporate Governance

## PRIMER ON COMMITTEE RECOMMENDATIONS



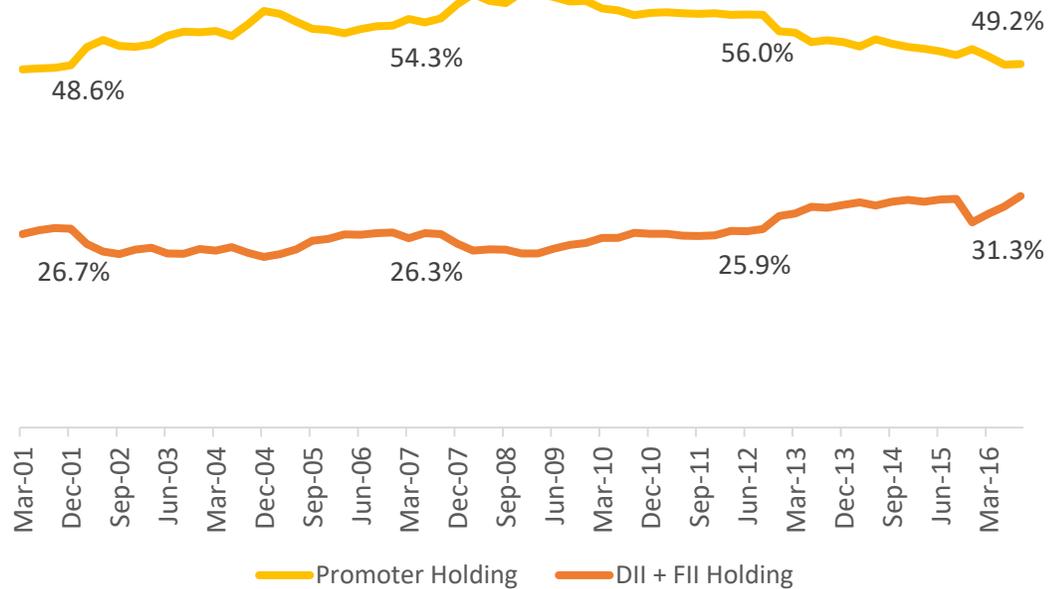
# Indian markets: The right time for governance reforms

**Increasing institutional ownership in Indian equities**

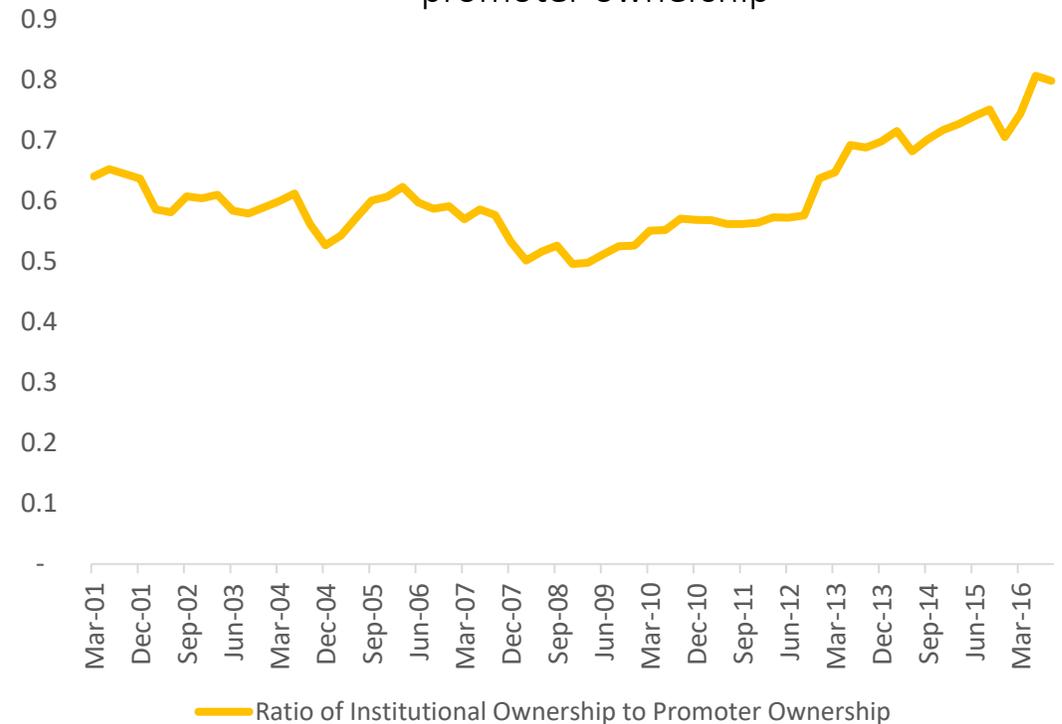


**Increased engagement between companies and investors**

Ownership Patterns for Indian Equities



Increasing proportion of Institutional ownership to promoter ownership



# Governance is greater than the sum of its parts



principles

Principles based approach adopted by committee, with primary focus on tenets of shareholder protection and long-term value creation.



attainable

The recommendations build on the existing legal framework. The incremental approach makes the proposals more attainable for corporates.



relevant

The proposed changes are grounded on market realities in the Indian context and at the same time, helps align the governance agenda with global practices.



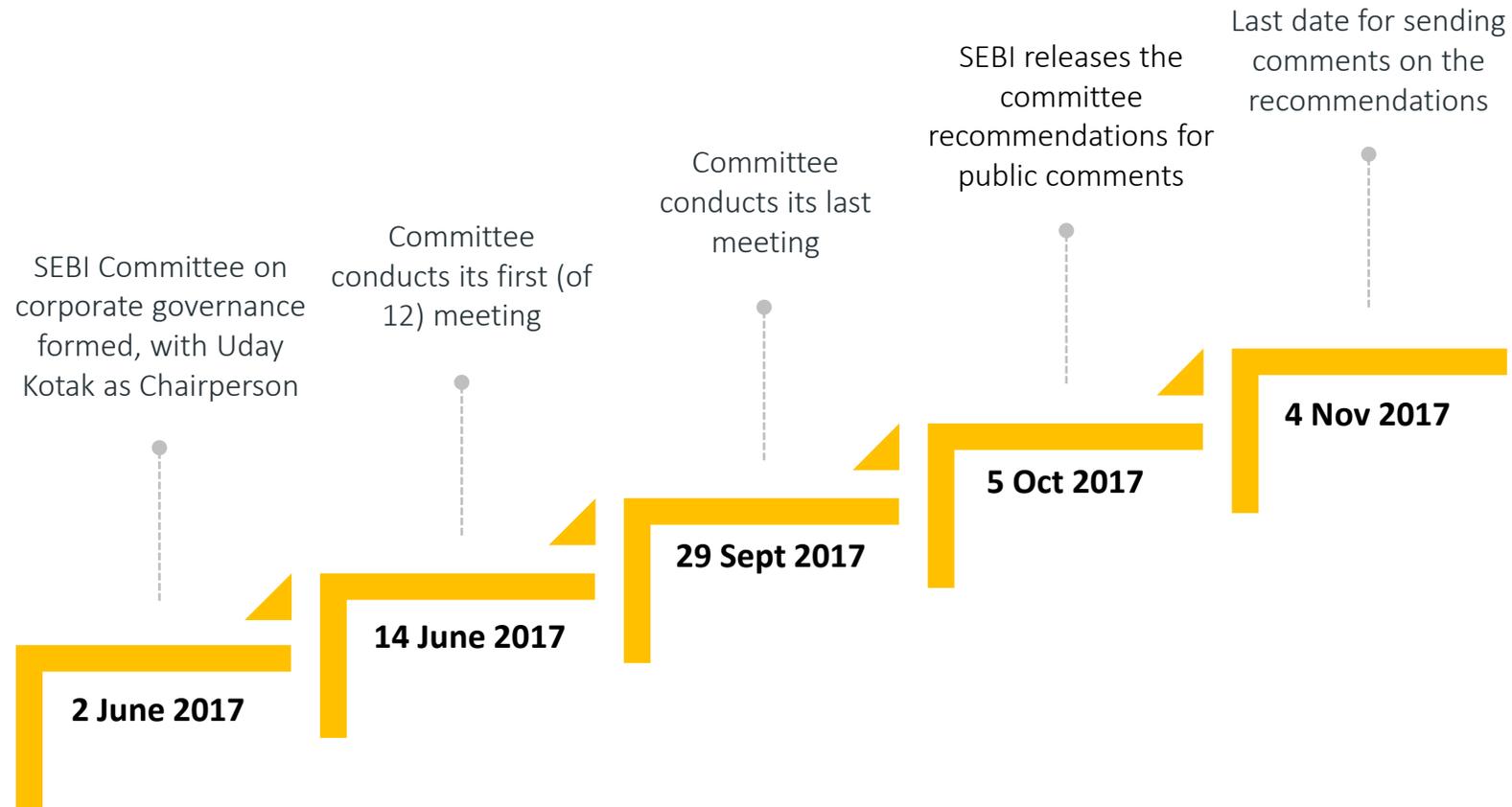
time-based

The transition window (between 2018 and 2020) gives corporates time to adjust and allows for a phased implementation of the recommendations.



stakeholders

Participation from diverse stakeholders, including corporates, government, regulators, exchanges, lawyers, consultants, industry bodies, and proxy advisory firms.



#### Disclosures:

- Amit Tandon, Managing Director of IIAS, was a member of the Kotak committee and participated in the deliberations.
- The document focuses on the key highlights of the Kotak committee report. For a detailed list of proposed changes, please refer to [Annexure 1](#).



## Board effectiveness

- Ensure skill, knowledge and gender diversity
- Enhance board independence
- Ensure director participation
- Strengthen committee functioning
- Create conflict free reporting structures



## Monitoring of group entities/transactions

- Increase oversight on subsidiaries
- Perform secretarial audit for subsidiaries
- Control information sharing with dominant shareholders
- Allow negative votes for related parties
- Introduce thresholds for royalty payouts and director remuneration



## Disclosures and transparency

- Expand nature and types of disclosures
- Ensure searchable and standardized formats
- Disclose key changes in financial indicators
- Put out details on capital utilization
- Disclose long-term and medium-term strategy
- Improve disclosures in valuation reports



## Audit quality

- Determine impact of audit qualifications
- Enhance quarterly disclosures
- Expand scope of internal controls
- Disclose auditor credentials/fees at time of appointment and reasons for resignation
- Guidelines for audit quality indicators



## Investor participation

- Revise AGM timelines
- Share webcasts of all shareholder meetings
- Extend e-voting timelines
- Encourage institutional investor to adopt stewardship code
- Remove voting rights for treasury stock
- Disclose board's view on all resolutions

# Board effectiveness: Diversity and Independence

## WHAT'S NEW?

### 1 Disclosure of skills

Board must list the competencies that it believes its members should possess. It should also disclose the skills that its directors actually possess.

### 2 Board interlock

Board linkages (in other companies) between directors will be considered while determining independence.

### 3 Lead ID

If Chairperson is non-independent, companies must appoint a lead Independent Director (ID), who will coordinate discussions between IDs.

### 4 Minimum pay

The minimum pay for an independent director will be Rs.0.5 mn (for top 500 companies) - with additional requirements on minimum sitting fees.

## WHAT HAS CHANGED?

Agenda	Existing provision	Proposed change
<b>Board size</b>	Minimum three directors	Minimum six directors
<b>Women Directors</b>	At least one	At least one independent
<b>Independent Directors</b>	Depending on Chairperson status	At least 50% of board must be independent
<b>Alternate Directors</b>	Alternate directors allowed for IDs	Alternate directors cannot attend meetings on behalf of IDs
<b>Resignation disclosures</b>	Detailed reasons to be given to registrar	Detailed reasons to be provided to stock exchanges and in the governance report

## WHAT'S NEW?

### 1 Attendance threshold

If a director does not attend at least 50% of board meetings over two financial years on a rolling basis, his/her continuance on the board should be ratified by the shareholders at the next AGM.

### 2 Knowledge upgrades

At least once a year, the directors should be updated on regulatory and compliance changes. In addition, a formal induction will be mandatory for every new ID, with additional training requirements every five years.

### 3 Director engagement

At least once every year, an interaction should be required between the non-executive directors and the senior management.

## WHAT HAS CHANGED?

Agenda	Existing provision	Proposed change
<b>Age threshold</b>	Only for executive directors	Approval required for non-executive directors on attaining 75 years of age
<b>Board meetings</b>	At least four each year	At least five meetings in a year
<b>Quorum for board meetings</b>	Minimum of two directors or 1/3 of the board, whichever is higher	Minimum of three directors or 1/3 of the board, whichever is higher – including at least one independent director
<b>Threshold for directorships</b>	Cannot serve as an ID in more than seven listed entities	Cannot serve as a director in any capacity more than eight listed entities (cap on independent directorships to stay at seven listed entities)

# Board effectiveness: Committees and reporting structure

AC: Audit Committee, NRC: Nomination & Remuneration Committee  
 SRC: Stakeholders Relationship Committee, RMC: Risk Management Committee

## WHAT'S NEW?

- 1

### Committee meetings

All committees must meet at least once a year (AC must meet five times). Further, one ID required for quorum in statutory committees (other than AC which has separate quorum requirements).
- 2

### Separation of roles

Listed entities with more than 40% public shareholding will need to separate the roles of Chairperson and CEO and appoint a non-executive Chairperson.
- 3

### Focus on technology

Risk Management Committee (for top 500 companies) will oversee cyber security. Further, companies may institute an information technology (IT) committee.
- 4

### Reporting structure

Confirmation be provided that the board has been responsible for the business and overall affairs of the listed entity, and the reporting structures support this confirmation.

## WHAT HAS CHANGED?

Agenda	Existing provision	Proposed change
<b>Committee Independence</b>	<ul style="list-style-type: none"> <li>NRC to have 50% independent representation</li> <li>No separate requirement for SRC</li> </ul>	<ul style="list-style-type: none"> <li>NRC to have 2/3 independent representation</li> <li>SRC to have at least one independent director</li> </ul>
<b>Role of committees</b>	Roles defined in SEBI LODR	In addition, NRC to approve pay for senior management. Further, SRC to engage with major shareholders and obtain inputs on strategy.
<b>Threshold for committee memberships</b>	Only AC and SRC memberships are considered for committee thresholds	AC, SRC and NRC memberships to be considered for committee thresholds

## WHAT'S NEW?

### 1 Audit Committee Scrutiny

The audit committee will be required to scrutinize the end utilization of funds where the total amount of financial support to the subsidiary exceeds Rs.1 bn or 10% of the asset size of the subsidiary, whichever is lower.

### 2 Creation of Group Governance Unit

In order to improve monitoring of group entities, the committee has recommended that a dedicated group governance unit, comprising members of the board, be established (this is a discretionary requirement). The unit will be responsible for the formulation of a group governance policy.

## WHAT HAS CHANGED?

Agenda	Existing provision	Proposed change
<b>Material subsidiary</b>	Threshold for determining material subsidiary is one whose income/net-worth exceeds 20% of the consolidated income or net-worth of parent	Threshold for determining material subsidiary will be revised to 10% of the consolidated income or net-worth
<b>Independent directors on subsidiary boards</b>	At least one ID required on the boards of unlisted Indian material subsidiaries	At least one ID required on the boards of unlisted material subsidiaries (both Indian and foreign). For this, material subsidiary to be defined as per previous provisions (20% of income or net-worth)
<b>Secretarial audit</b>	Only unlisted subsidiaries above a certain threshold required to undertake secretarial audit	All unlisted Indian material subsidiaries to undertake secretarial audit

# Related Party Transactions (RPTs): Greater Disclosures

## WHAT'S NEW?

### 1 Information Access

Individuals seeking access to inside information must first sign an 'Access to Information' agreement, which will cover terms of information sharing. Entering into or terminating the agreement will be treated as a material event.

### 2 Disclosures in annual report

Disclosure of RPTs to be made on half-yearly basis. Further, annual report to disclose RPTs with entities holding 10% or more in the company.

This is a unique requirement for Indian markets and will help shape the global debate on information sharing with 'insiders'.

## WHAT HAS CHANGED?

Agenda	Existing provision	Proposed change
<b>Definition of related party</b>	Defined in Companies Act and SEBI LODR	In addition, any promoter entity which holds 20% in the listed co.
<b>Materiality policy</b>	Listed companies need to formulate a policy on materiality of RPT	Policy to clearly state the materiality threshold, which will state the relevant thresholds, and be reviewed and updated once in every three years

# Related Party Transactions: Approval requirements

## WHAT'S NEW?

### 1 Promoter reclassification

More clarity has been provided on promoter reclassification. A new provision for reclassification for 'specific' promoters has been introduced. Board approval will be required for reclassifications, along with shareholder approval. Further, promoter group has to abstain from voting on such proposals. Reclassified promoters cannot hold more than 10% stake.

### 2 Remuneration thresholds

The pay thresholds for both executive and non-executive directors have been revised. For executive directors, approval will be required if pay exceeds higher of Rs.50 mn or 2.5% of profits (for one director) and 5% of profits (where there is more than one executive director). For non-executive directors, approval is required if the pay for a single non-executive director exceeds 50% of the total pay for all non-executive directors.

## WHAT HAS CHANGED?

Agenda	Existing provision	Proposed change
<b>Negative Votes</b>	Related parties cannot vote on RPTs	A related party may abstain or vote 'AGAINST' a proposed transaction – but will not be allowed to vote in favour of any RPT
<b>Approval for royalty</b>	Shareholder approval not required if royalty payments do not exceed the RPT thresholds	Royalty pay-outs exceeding 5% of consolidated turnover in a given year will require approval from majority of public shareholders

# Disclosures in annual reports/meeting notices

## WHAT'S NEW?

- 1** **Financial indicators**

Details of material changes (25% or more than previous year) in key financial indicators and any change in Return on Net-Worth with explanations to be disclosed.
- 2** **Valuation reports**

Valuation reports for schemes of arrangement must include disclosures on assets, liabilities & turnover of entities involved.
- 3** **Strategy**

Disclose medium- and long-term strategy based on a time frame determined by the board.
- 4** **Views of committees**

Cases where recommendations of any board committee were not considered by the board, along with reasons, to be disclosed.

## WHAT HAS CHANGED?

Agenda	Existing provision	Proposed change
<b>Submission of annual report</b>	Soft copies of approved and adopted annual report submitted to stock exchanges within 21 days after AGM	Soft copies of approved and adopted annual report submitted to stock exchanges within 48 hours after AGM
<b>Utilization of proceeds</b>	Periodic disclosures on utilization of issue proceeds in case of public issues	Periodic disclosures on utilization of issue proceeds in case of public issues, preferential issues and qualified institutional placement
<b>Director details</b>	Appointment notice to disclose number of directorships/committee memberships in listed entities	Annual report to disclose number of directorships/committee memberships in listed entities. Further, the report must include a confirmation that no director has been disqualified for board position

## WHAT'S NEW?

### 1 Reporting formats

All disclosures to be made to stock exchanges in XBRL and on company website in searchable format. Further, disclosures to be streamlined across platforms.

### 2 Depository receipt

Company to disclose shareholding pattern of holders of depository receipts holding more than 1% stake in the quarterly filings.

## WHAT HAS CHANGED?

Agenda	Existing provision	Proposed change
<b>Analyst meets</b>	Schedule of analyst meets to be disclosed on stock exchange and company website	Presentations made to analysts to be disclosed on stock exchange and company website
<b>Credit rating</b>	Revision in credit ratings for instruments to be disclosed	In addition, all outstanding credit ratings to be put up on website
<b>Website disclosures</b>	Companies to have a functional website and maintain required information	Disclosures required under SEBI LODR to be published in a separate section on company website
<b>Subsidiary accounts</b>	Financial statements of subsidiaries to be placed on company website	Financial statements of subsidiaries to be placed on company website at least 21 days before the AGM
<b>Board meeting for bonus issue</b>	Prior intimation of board meeting for issue of bonus shares required only when it is on the agenda the meeting	Prior intimation required irrespective of it being on the meeting agenda

## WHAT'S NEW?

### 1 Group audit

Group audits to be governed as per global standards – same auditors to audit the entire group – framework to be developed by ICAI.

### 2 External opinion

Auditor to have the right to seek independent external opinion in case of conflicting views with the company.

### 3 Auditor fees

Total fees for all services paid by the group to the auditor and its network firms to be disclosed.

### 4 Empowering SEBI

SEBI to have power to act against auditors and other fiduciaries in listed companies.

## WHAT HAS CHANGED?

Agenda	Existing provision	Proposed change
<b>Audit qualifications</b>	Management given the option to provide reasons for not estimating the qualification impact	Management to mandatorily make an estimate where they are unable to quantify the impact of audit qualification
<b>Quarterly financial disclosures</b>	Option to file standalone results; no audit review for overall group; no cash flow statement required	Consolidated results to be filed quarterly; limited review to be constructed for at least 80% of group business; cash flow statement to be provided on half-yearly basis; material adjustments for prior periods to be disclosed
<b>Internal controls</b>	Applicable for Indian group companies	Applicable for all group companies – to be decided later by ICAI
<b>Auditor appointment</b>	Boards given the option to fix auditor fees based on shareholder approval at time of appointment	Notice for auditor appointment to include fees proposed and the credentials of the statutory auditor. Further, at the time of resignation, detailed reasons to be given.

## WHAT'S NEW?

### 1 Meeting webcasts

Live one-way webcasts of all shareholder meetings to be mandatory for top 100 companies (based on market capitalisation).

### 2 Treasury stock

No voting rights attached to treasury stock shall be exercisable after three years.

### 3 Board's view

Resolutions will either be recommended by the board or carry board's deliberations (where no recommended is given).

### 4 Stewardship code

The Committee recommends that a common stewardship code be created for the financial sector on the lines of global best practices.

## WHAT HAS CHANGED?

Agenda	Existing provision	Proposed change
<b>AGM Timelines</b>	AGM to be held within six months from closure of the financial year	AGM to be held within five months from closure of the financial year (for top 100 companies)
<b>E-voting Timelines</b>	E-voting is kept open till 5 PM on the day preceding the AGM	E-voting to be kept open till 11:59 PM on meeting date

- Revive the Qualified Audit report Review Committee (QARC) mechanism to review and examine audit qualifications in greater detail.
- Extend the powers of SEBI to act against auditors and third party fiduciaries with statutory duties, subject to appropriate safeguards.
- Strengthen the role of the Institute of Chartered Accountants of India (ICAI).
- Strengthen the independent functioning of Quality Review Board (QRB) to review audit quality.
- Improve governance levels at Public Sector Enterprises (PSEs):
  - Listed PSEs must be fully comply with the provisions of SEBI LODR
  - In case there is any inconsistency between the relevant legislation under which the respective PSE has been established and the SEBI LODR Regulations, the same must be aligned by the regulators/authorities
  - Government should assess and examine broader issues concerning ownership structure, removal of conflicts and creating a more autonomous environment for PSEs
- SEBI must grant leniency to whistle-blowers, who may be in violation of securities laws.
- SEBI must build capacity to:
  - Enhance the number and skill sets of its employees
  - Adopt data science technologies to detect audit and trading frauds
  - Collaborate effectively with other agencies/regulators

# liAS has been advocating change

## Director Attendance

The liAS [voting guidelines](#) have always stressed on the need for directors to take their responsibilities seriously and attend board meetings. liAS expects directors to attend at least 75% board meetings in a 3-yr period.

## Women Independent Directors

In a study [co-authored by liAS](#), it was found that only 16% of IDs in India are women as compared to 34% in the STOXX Europe 600 Index. Accordingly, the report had recommended that there must be at least one woman ID on the boards.

## Royalty payouts

liAS has routinely highlighted how [royalty payouts](#) are excessive in some MNCs - in FY16, royalty had grown at a 13% 5-year CAGR (profit CAGR of 9.6%). As early as 2012, liAS [had suggested](#) royalty contracts be put to vote and not be considered as [routine business](#).

## Board's view on resolutions

As part of the analysis of a contentious RPT transaction, liAS [had opined](#) that the board should have provided guidance to shareholders on their view of the transaction. It is part of their fiduciary responsibility to articulate a clear stance on each resolution.

## AGM timelines and webcasts

liAS had earlier [highlighted](#) that 38% of the top 500 companies wait till the last month to conduct AGMs. This hinders timely engagement with stakeholders. The report also stated that webcasts will allow for effective stakeholder participation.

## Board evaluation

The findings of an NSE-liAS [board evaluation study](#) revealed that very few companies provided good quality disclosures on board evaluation. There was an urgent need for strengthening the disclosure quality in this regard.

## Cyber security

In its voting recommendations for shareholders, liAS has been carefully examining if companies have disclosed how they address issues of cyber security in the annual reports/websites – dealing with such threats should be at the top of the board's agenda.

## Disclosure of skills

In the corporate governance scorecard developed jointly by IFC, BSE and liAS, it has been stipulated that companies must disclose if the board has sufficient skills, competence and expertise. Microsoft's [board matrix](#) (page 14) is considered a global best practice.

# About IiAS: Who we are

## Board of Directors



**Amit Tandon, Founder & MD**  
Ex-MD, Fitch Ratings India  
and Sri Lanka



**Anil Singhvi, Founder**  
Chairman, ICAN Investments



**Renuka Ramnath**  
Founder, Multiples Alternate Asset  
Management Pvt Ltd



**Deven Sharma**  
Ex-President, Standard & Poor's



**Robert Pavrey**  
Practicing Company Secretary

## Management Team



**Amit Tandon, MD**  
Ex-MD, Fitch  
Ratings India and  
Sri Lanka



**Hetal Dalal, COO**  
13 years with CRISIL

## Our Shareholders



TATA INVESTMENT CORPORATION LIMITED



**“NEVER DOUBT THAT A SMALL GROUP  
OF THOUGHTFUL, COMMITTED CITIZENS  
CAN CHANGE THE WORLD;  
INDEED, IT’S THE ONLY THING  
THAT EVER HAS.”  
-MARGARET MEAD**



markets  $\cap$  governance

[www.ias.in](http://www.ias.in)



# Annexure 1: List of changes (Chapter I)

S.No	Agenda	Existing provision	New provision	To be complied from
<b>Chapter I- Composition and Role of the Board of Directors</b>				
1	<b>Minimum Number of Directors on a Board</b>	Companies Act requires a minimum of three directors on the board	A minimum of six directors should be required on the board	As on 1 October 2018
2	<b>Gender Diversity on the Board</b>	At least one woman director	At least one independent woman director	As on 1 October 2018
3	<b>Attendance of Directors</b>	Companies Act provides for the automatic vacation of office of director if a director is absent from all meetings of the board of directors held during a 12-month period	If a director does not attend at least half of the total number of board meetings over two financial years on a rolling basis, his/her continuance on the board should be ratified by the shareholders at the next annual general meeting	From 1 April 2018
4	<b>Disclosure of Expertise/ Skills of Directors</b>	No specific provision.	Board of directors of every listed entity should be required to list the competencies/expertise that it believes its directors should possess. It should also be required to disclose the list of competencies/expertise that its board members actually possess	From FY19 AR (detailed disclosures from FY20)
5	<b>Approval for Non-executive Directors on Attaining a Certain Age</b>	No specific provision	A provision requiring a special resolution should be inserted for listed entities for the appointment/continuation of non-executive directors on attaining the age of 75 years	From 1 October 2018
6	<b>Minimum Number of Board Meetings</b>	At least four meetings	At least five meetings and at least once a year, the board shall specifically discuss strategy, budgets, board evaluation, risk management, ESG (environment, sustainability and governance) and succession planning.	From 1 April 2018
7	<b>Update of Knowledge of the Board Members</b>	No specific provision.	At least once every year, the board of directors should be updated on regulatory and compliance changes	From 1 April 2018
8	<b>NED Engagement with the Management</b>	No specific provision.	At least once every year, an interaction should be required between the NEDs and senior management.	From 1 April 2018
9	<b>Quorum for Board Meetings</b>	Companies Act requires a quorum of one-third of the total strength of the board of directors or two directors, whichever is higher, for every board meeting	Quorum for every board meeting of the listed entity should be a minimum of three directors or one-third of the total strength of the board of directors, whichever is higher, including at least one independent director	From 1 October 2018
10	<b>Separation of the Roles between Non-executive Chairperson and Managing Director/CEO</b>	Discretionary requirement for a listed entity	Listed entities with more than 40% public shareholding should separate the roles of Chairperson and MD/CEO and the Chairperson should be non-executive	From 1 April 2020
11	<b>Matrix Reporting Structure</b>	No specific provision.	A confirmation be provided by the board as part of the corporate governance report that they have been responsible for the business and overall affairs of the listed entity in the relevant financial year and that the reporting structures of the listed entity, formal and informal, are consistent with the above	From FY19 AR
12	<b>Maximum Number of Directorships</b>	A person shall not serve as an independent director in more than seven listed entities	No person shall hold office as a director, including any alternate directorship, in more than eight listed entities at the same time (of which independent directorships shall not exceed seven), with effect from April 1, 2019 and not more than seven listed entities with effect from April 1, 2020	From 1 April 2019/1 April 2020
13	<b>Disclosures on Board Evaluation</b>	-	All listed entities may consider the following as a part of their disclosures on board evaluation: a) Observations of board evaluation carried out for the year b) Previous year's observations and actions taken c) Proposed actions based on current year observations."	Discretionary requirement

# Annexure 1: List of changes (Chapter II)

S.No	Agenda	Existing provision	New provision	To be complied from
<b>Chapter II- The Institution of Independent Directors</b>				
1	<b>Minimum Number of Independent Directors</b>	Depends on chairperson classification	At least half of the board of directors shall comprise of independent directors (i) with effect from April 1, 2019, for the top 500 listed entities, determined on the basis of market capitalization, as at the end of the immediate previous financial year; and (ii) with effect from April 1, 2020, for all listed entities.	From 1 April 2019/1 April 2020
2A	<b>Eligibility criteria for Independent Directors (Board interlock)</b>	No specific provision.	A non-independent director of a company on the board of which any non-independent director of the listed entity is an independent director, cannot be an independent director on the board of the listed entity	From 1 April 2018
2B	<b>Independence disclosures</b>	No specific provision.	Independence should be confirmed in the corporate governance report, and at the first meeting of the board in every financial year. Further, fulfillment of independence criteria to be evaluated as part of board evaluation	From 1 April 2018
3	<b>Minimum Compensation to Independent Directors</b>	No provision on minimum compensation.	The minimum total remuneration for an ID per year shall be Rs. 5 lakhs for top 500 companies by market capitalisation (subject to approvals as required under Companies Act) - with additional requirements on minimum sitting fees. In case of inadequacy of profits, the minimum requirement of Rs. 5 lakhs shall not apply.	From 1 April 2018
4	<b>Disclosures on Resignation of Independent Directors</b>	Companies Act provides that a director who is resigning before the expiry of his term shall give detailed reasons to the registrar of companies	Should be required to disclose detailed reasons for resignation of IDs (as provided by such IDs) simultaneously with intimation of their resignation to the stock exchanges as well as subsequently as part of the corporate governance report. As part of such disclosure, the listed entity should include a confirmation as received from the director that there are no other material reasons other than those set out therein.	From 1 April 2018
5	<b>Directors and Officers Insurance for Independent Directors</b>	The Companies Act provides that the letter of appointment of IDs shall specify the provision for Directors and Officers (D&O) insurance, if any.	Initially be mandatory for Top 500 companies by market capitalization, to undertake D&O insurance for its IDs, with effect from October 1, 2018. the board of directors of the listed entity to determine the quantum and type of risks covered under such insurance	From 1 October 2018
6	<b>Induction and Training of Independent Directors</b>	Companies Act provides general clauses pertaining to training, induction, etc. of directors	<ul style="list-style-type: none"> <li>• A formal induction should be mandatory for every new ID appointed to the board; and</li> <li>• A formal training, whether external/internal, especially with respect to governance aspects, should be required for every ID once every five years, the onus of which shall be on the director</li> </ul>	From 1 April 2018
7	<b>Alternate Directors for Independent Directors</b>	The Companies Act permits alternate directors for all directors including IDs. It also states that no person shall be appointed as an alternate director for an ID unless he is qualified to be appointed as an ID.	No person shall be appointed as an alternate director for an independent director of a listed entity with effect from April 1, 2018	From 1 April 2018
8	<b>Lead Independent Director in Companies with Non-independent Chairperson</b>	No specific provision.	All listed entities where the Chairperson is not independent to designate an ID as the Lead ID; the Lead ID should be a member of NRC	From 1 October 2018
9	<b>Exclusive Meeting of Independent Directors</b>	Require at least one meeting of the IDs in a year without the presence of other directors	Such meetings may be held more than once at the discretion of the IDs	
10	<b>Casual Vacancy of Office of Independent Director</b>	Vacancy shall be filled but not later than the immediate next meeting of the board of directors or three months from the date of such vacancy, whichever is later	Any appointment to fill casual vacancy of office of any IDs should also be approved by the shareholders at the next general meeting	From 1 April 2018

# Annexure 1: List of changes (Chapter III)

S.No	Agenda	Existing provision	New provision	To be complied from
<b>Chapter III- Board Committees</b>				
1	<b>Minimum Number of Committee Meetings</b>	SEBI LODR Regulations require at least four meetings of the Audit Committee every year	The minimum number of Audit Committee meetings be increased to five every year. In addition, the Committee recommends all other mandatory board committees necessarily meet at least once in a year.	From 1 April 2018
2	<b>Role of Audit Committee (scrutiny of transactions with subsidiary)</b>	No specific provision.	The audit committee should be required to scrutinize the end utilization of funds where the total amount of loans/advances/ investment from the holding company to the subsidiary exceeds Rs. 100 crore or 10% of the asset size of the subsidiary, whichever is lower.	From 1 April 2018
3	<b>Composition of Nomination and Remuneration Committee</b>	NRC is required to have only half of its members as IDs	NRC is required to have at least two thirds of its members as IDs	From 1 April 2019
4	<b>Role of Nomination and Remuneration Committee</b>	Role of the NRC includes identifying persons who may be appointed in senior management in accordance with the criteria laid down, and recommending to the board of directors their appointment and removal.	Scope of senior management has been expanded. Also NRC should approve all remuneration, in whatever form, payable to senior management, subject to delegation of such authority to the Committee by the board of directors	From 1 April 2018
5	<b>Composition and Role of Stakeholders Relationship Committee</b>	Role of the SRC shall be to consider and resolve the grievances of the security holders of the listed entity	Recommends a significant increase in its scope and responsibilities to include actively engaging and communicating with the major shareholders of the company/Group it represents, including obtaining proactive input on strategy. Further, the Committee recommends that there be at least three directors as members of the SRC, with at least one being an ID. Further, the Committee recommends that the Chairperson of the SRC be present in the annual general meeting to answer queries of the security holders.	From 1 April 2018
6	<b>Quorum for Committee meetings</b>	SEBI LODR Regulations specifies quorum requirement for meetings of the Audit committee but not for other committees	For meetings of each such committee of the board, the composition of which statutorily requires at least one ID, the presence of at least one ID may be made mandatory for attaining quorum for such meetings (apart from the audit committee where the quorum requirement remains unchanged).	From 1 April 2018
7	<b>Applicability and Role of Risk Management Committee</b>	SEBI LODR Regulations require the constitution of a risk management committee by the top 100 listed entities. The role of the risk management committee is not specified in the SEBI LODR Regulations.	Extend the requirement of a Risk Management Committee to the top 500 listed entities by market capitalization as against current applicability to top 100 listed entities. In addition, the Committee recommends that, in view of increasing relevance of cyber security and related risks, the role of risk management committee specifically cover this aspect.	From 1 April 2018
8	<b>Membership and Chairpersonship Limit</b>	Currently, in determining the maximum number of committees in which a director can be a member (max 10)/Chairperson (max 5) of, SEBI LODR Regulations considers only the Audit Committee and Stakeholders Relationship Committee	In determining the maximum number of committees in which a director can be a member/Chairperson of, NRC should also be included and thereby treated at par with Audit Committee and Stakeholders Relationship Committee	From 1 April 2018
9	<b>Information Technology Committee</b>	No specific provision.	Listed entities may constitute an information technology committee which, in addition to the risk management committee, will focus on digital and other technological aspects.	Discretionary requirement

# Annexure 1: List of changes (Chapter IV)

S.No	Agenda	Existing provision	New provision	To be complied from
<b>Chapter IV- Enhanced Monitoring of Group Entities</b>				
1A	Obligation on the Board of the Listed Entity with respect to Subsidiaries	threshold for determining material subsidiary as 20% of the consolidated income or net-worth	The definition of the term “material subsidiary” should be revised to mean a subsidiary, whose income or net worth exceeds 10% (from the current 20%) of the consolidated income or net worth	From 1 April 2018
1B	Obligation on the Board of the Listed Entity with respect to Subsidiaries	SEBI LODR Regulations require that at least one ID on the board of directors of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, incorporated in India	The same may be extended to unlisted foreign material subsidiaries as well. For this, material subsidiary will continue to be defined as a subsidiary, whose income or net worth exceeds 20% of the consolidated income or net worth	From 1 April 2018
2	Group Governance Unit/ Committee and Policy	No specific provision.	<p>In order to improve monitoring of group entities, it is recommended that where a listed entity has a large number of unlisted subsidiaries:</p> <ol style="list-style-type: none"> <li>1) The listed entity may monitor their governance through a dedicated group governance unit or Governance Committee comprising the members of the board of the listed entity.</li> <li>2) A strong and effective group governance policy may be established by the entity.</li> <li>3) However, the decision of setting up of such a unit/committee and having such a group governance policy may be left to the board of the listed entity.</li> </ol>	Discretionary requirement
3	Secretarial Audit	Companies Act requires a secretarial audit for listed companies and unlisted companies above a certain threshold	Every listed entity and its material unlisted subsidiaries incorporated in India shall undertake secretarial audit and shall annex with its annual report, a secretarial audit report	From 1 April 2018

# Annexure 1: List of changes (Chapter V)

S.No	Agenda	Existing provision	New provision	To be complied from
<b>Chapter V- Promoters/Controlling Shareholders and Related Party Transactions</b>				
1	<b>Sharing of Information with Controlling Promoters/ Shareholders with Nominee Directors</b>	No specific provision	<ul style="list-style-type: none"> <li>Promoters/ significant shareholders to enter into 'Access to Information' Agreement with the company</li> <li>Entering into or terminating the Agreement be disclosed as a material event under SEBI LODR</li> <li>Communication made under the Agreement treated as communication for legitimate purpose under SEBI (Prohibition of Insider Trading) Regulations.</li> </ul>	From 1 April 2018
2	<b>Re-classification of Promoters /Classification of Entities as Professionally Managed</b>	Under SEBI LODR: <ul style="list-style-type: none"> <li>Only shareholder approval required</li> <li>All shareholders can vote</li> <li>Promoters/ Promoter group/ PAC to not hold more than 1% of paid-up equity capital</li> <li>Re-classified promoter/relative can hold KMP position for 3 years from date of approval</li> </ul>	<ul style="list-style-type: none"> <li>Board approval required</li> <li>Promoter/ promoter group/ PAC to abstain from voting at general meeting</li> <li>Promoters/ Promoter group/ PAC to not hold more than 10% of paid-up equity capital</li> <li>Promoters/ relatives can not be on Board/management or appoint Nominees</li> <li>New provision for re-classification of 'specific promoter' in line with existing regulations</li> </ul>	With immediate effect
3	<b>Disclosure of Related Party Transactions</b>	Companies Act and SEBI LODR require disclosure in Board's Report and shareholder approval when certain thresholds are exceeded	<ul style="list-style-type: none"> <li>Disclosure of RPT on half-yearly basis (within 30 days of publishing financial results)</li> <li>Annual Report to disclose transactions with promoter/promoter group holding 10% or more</li> <li>Definition of Related Party to include promoter/promoter group with shareholding of 20% or more</li> <li>Penalties levied for non-compliance</li> </ul>	From 1 April 2018
4	<b>Approval of Related Party Transactions</b>	Under SEBI LODR related parties abstain from voting on Related Party Transactions	Related parties may abstain or vote against Related Party Transactions but not allowed to vote in favour	With immediate effect
5	<b>Royalty and Brand Payments to Related Parties</b>	No specific provision	Materiality threshold set at 5% of annual turnover for royalty and brand payments	From 1 April 2018
6	<b>Remuneration to Executive Promoter Directors</b>	Companies Act prescribes threshold - 5% of net profits to any one Executive Director (Promoter / non-promoter) or 10% in aggregate where there is more than one Executive Director	Shareholder approval required: annual remuneration to a director exceeds Rs. 5 crore or 2.5% net profits (higher of the two) or aggregate remuneration exceeds 5% of net profits where there is more than one director	FY starting Apr 1, 2018
7	<b>Remuneration of Non-Executive Directors</b>	Companies Act threshold - 1% of the net profits in case there is a managing director or whole time director or manager and 3% in other cases. SEBI LODR requires the Board to recommend such payments	Shareholder approval to be obtained every year in which the annual remuneration payable to a single non-executive director exceeds fifty per cent of the total annual remuneration payable to all non-executive directors	From 1 April 2018
8	<b>Materiality Policy</b>	Listed companies need to formulate a policy on materiality of RPT	Policy to clearly state the materiality threshold and be reviewed and updated once in every 3 years	From 1 April 2018

# Annexure 1: List of changes (Chapter VI): 1/2

S.No	Agenda	Existing provision	New provision	To be complied from
<b>Chapter VI - Disclosures and Transparency</b>				
1	<b>Submission of Annual Reports</b>	Soft copies of the Annual Report be sent to shareholders whose email ID is registered with the company and submitted to stock exchanges within 21 days after the Annual General Meeting (AGM)	Copy of the annual report to be published on stock exchange and company website simultaneously when dispatched to shareholders and a revised copy to be published within 48 hours of the AGM, in case of amendments. Registering email addresses be made compulsory.	From 1 April 2018
2	<b>Disclosures pertaining to Holders of Depository Receipts</b>	No specific provision	Company to obtain details of holders of Global Depository Receipts on a monthly basis and disclose shareholding pattern of holders holding more than 1% of total company shareholding.	From 1 April 2018
3	<b>Disclosures pertaining to Credit Rating</b>	Revision in credit ratings for different instruments to be disclosed	All credit ratings obtained for different instruments to be listed on the website and updated in case of revisions. Same to be disclosed in the Corporate Governance Report.	From 1 April 2018
4	<b>Searchable Formats of Disclosures</b>	No specific provision	All disclosures to be made to stock exchanges in XBRL format and on company website in searchable format	From 1 April 2018
5	<b>Harmonization of Disclosures</b>	No specific provision	Harmonised disclosure formats and devise a common filing platform	By 1 April 2018
6	<b>Disclosures pertaining to Analyst/Institutional Investor meets</b>	Schedule of investor/analyst meets disclosed on stock exchange and company website	Presentations made to investor/analyst disclosed on stock exchange and company website	With immediate effect
7	<b>Disclosures of Key Changes in Financial Indicators</b>	Companies Act requires a general disclosure under the Management Discussion and Analysis section	Details of material changes (25% or more than previous FY) in key financial indicators and any change in Return on Net Worth with detailed explanations to be disclosed under the Management Discussion and Analysis section	From 1 April 2018
8	<b>Utilisation of Proceeds of Preferential Issue and Qualified Institutional Placement</b>	SEBI (ICDR) Regulations require periodic disclosures on utilization of issue proceeds in case of public issues	Corporate Governance Report to include disclosures on utilization of issue proceeds in case of preferential issues and qualified institutional placement	From 1 April 2018
9	<b>Disclosures in Valuation Reports in Schemes of Arrangement</b>	No specific provision	Overall improvement in standards of information in the valuation reports including disclosure on assets, liabilities & turnover of entities involved	N.A

# Annexure 1: List of changes (Chapter VI): 2/2



S.No	Agenda	Existing provision	New provision	To be complied from
<b>Chapter VI - Disclosures and Transparency</b>				
10	<b>Disclosures pertaining to Directors</b>	Notice of appointment to disclose number of directorships/ membership of committees in other listed companies	Corporate Governance Report to include disclosures on number of directorships (including category) / membership of committees of directors in other listed companies	From 1 April 2018
11	<b>Disclosures pertaining to Disqualification of Directors</b>	Companies Act requires an annual confirmation from directors in Form DIR-8	Corporate Governance Report to include a certificate from the Company Secretary that none of the directors have been disqualified under the provisions of law	From 1 April 2018
12	<b>Disclosures on Website</b>	Companies to have a functional website and maintain required information	Disclosures required under SEBI LODR to be published under a separate section on company website	From 1 April 2018
13	<b>Disclosures of Subsidiary Accounts</b>	Companies Act requires financial statements of subsidiaries to be placed on company website	Financial statements of subsidiaries to be placed on company website at least 21 days before the AGM	From 1 April 2018
14	<b>Disclosures on Long-term and Medium-term Strategy</b>	No specific provision	Company to disclose its medium- and long-term strategy based on a time frame determined by its Board under Management Discussion and Analysis section	From 1 April 2018
15	<b>Prior Intimation of Board Meeting to discuss Bonus Issue</b>	Prior intimation of board meeting for issue of bonus shares required only when it is on the agenda of the board meeting	Prior intimation required irrespective of it being on the meeting agenda	From 1 April 2018
16	<b>Views of Committees Not Accepted by the Board of Directors</b>	Companies Act requires disclosures regarding recommendations made by Audit Committee not considered by Board	Cases where recommendations of any Board committee were not considered by the Board to be disclosed in Corporate Governance Report along with reasons for not accepting the same	From 1 April 2018
17	<b>Commodity Risk Disclosures</b>	Disclosure of commodity price risk and commodity hedging activities required under the corporate governance section	A detailed reporting format along with the periodicity of the disclosures to be outlined for disclosures in Annual Report	N.A

# Annexure 1: List of changes (Chapter VII)

S.No	Agenda	Existing provision	New provision	To be complied from
<b>Chapter VII - Accounting and Audit related issues</b>				
1	<b>Audit Qualifications</b>	Management is required to quantify impact of any qualification in the Audit Report or make an estimate / provide reasons for not making an estimate, as the case may be	Management to mandatorily make an estimate where they are unable to quantify the impact of Audit qualification	From 1 April 2018
2	<b>Independent External Opinion by Auditors</b>	No specific provision	Auditor to have the right to seek independent external opinion in case of conflicting views with company management	From 1 April 2018
3	<b>Group Audits</b>	No specific provision	Alignment with International Standards on Auditing (ISA) governed by the requirements of ISA 600	N.A
4	<b>Quarterly Financial Disclosures</b>	Quarterly financial results to be submitted within 45 days of end of each quarter and Consolidated results submitted on annual basis	<ul style="list-style-type: none"> <li>Consolidated financial results to be submitted on quarterly basis</li> <li>Cash-flow statement to be provided on half-yearly basis</li> <li>Accounts totalling at least 80% of each of the consolidated revenue, assets and profits to undergo limited review/audit on quarterly basis</li> <li>Material adjustments made in the results of the last quarter given as a note in the financial results</li> </ul>	From 1 April 2018
5	<b>Internal Financial Controls (for group companies)</b>	ICAI guidance requires reporting of internal financial controls only for operations of indian group companies	Internal Financial Controls reporting requirements to be made applicable to the entire operations of the group including foreign operations	N.A
6	<b>Disclosure of Reasons of Resignation of Auditors</b>	Intimation to stock exchange in case of change in auditor	Detailed reasons for resignation of auditor to be provided	From 1 April 2018
7	<b>Disclosures on Audit and Non-audit Services Rendered by the Auditor</b>	No specific provision	Total fees for all services paid by the company and its subsidiaries to the statutory auditor and all entities in the network firm/ network entity of which the auditor is a part to be disclosed	From 1 April 2018
8	<b>Audit Quality Indicators</b>	No specific provision	Corresponding guidelines to be issued by ICAI	N.A
9	<b>Disclosures of Credentials and Audit Fee of Auditors</b>	Companies Act requires audit fees to be decided at general meeting or any other manner as provided in the notice	Notice for auditor appointment should include an explanatory note regarding details of the fees proposed, basis of recommendation for appointment and the details / credentials of the statutory auditor	From 1 April 2018
10	<b>IND-AS Adoption</b>	Time extension provided for banks, NBFCs and Insurance companies	Implementation by banks, NBFCs and Insurance companies simulataneously with listed companies	N.A
11A	<b>Strengthening Monitoring, Oversight and Enforcement by SEBI</b>	No specific provision	Alignment with the former requirement of review by the Qualified Audit report Review Committee (QARC)	N.A
11B	<b>Powers of SEBI with Respect to Auditors and Other Statutory Third Party Fiduciaries for Listed Entities</b>	No specific provision	Extend the powers of SEBI to act against auditors and third party fiduciaries with statutory duties, subject to appropriate safeguards	N.A
12	<b>Strengthening Role of ICAI</b>	Companies Act provides for monetary penalties on auditors	Amendments suggested to ICAI Act - imposing enhanced penalties, increased disclosure of action taken, separate enforcement team for listed companies, review of proxy advisory reports	N.A
13	<b>Strengthening the Independent Functioning of QRB</b>	No specific provision	Alignment with the provisions laid down by the International Forum of Independent Audit Regulators (IFIAR)	N.A

# Annexure 1: List of changes (Chapter VIII)

S.No	Agenda	Existing provision	New provision	To be complied from
<b>Chapter VIII- Investor Participation in Meetings of Listed Entities</b>				
1	<b>Timeline for Annual General Meetings</b>	Companies Act requires AGM to be held within 6 months from closure of the financial year	For top 100 companies (based on market capitalisation) AGM to be held within 5 months from closure of the financial year	From 1 April 2018
2	<b>E-voting and Webcast of Proceedings of the Meeting</b>	<ul style="list-style-type: none"> <li>Remote evoting compulsory for listed companies</li> <li>Under Companies Act evoting is kept open till 5 pm on day preceding AGM</li> </ul>	<ul style="list-style-type: none"> <li>Live one-way webcasts of all shareholder meetings for top 100 companies (based on market capitalisation)</li> <li>E-voting portal kept open up to 11.59 pm on meeting date</li> </ul>	From 1 April 2018
3	<b>Stewardship Code</b>	No specific provision	In line with framework devised by SEBI	N.A
4	<b>Treasury Stock</b>	Companies Act specifically prohibits the creation of treasury stock	No voting rights attached to treasury stock shall be exercisable after 3 years	From 1 April 2021
5	<b>Resolutions sent to Shareholders without Board's Recommendation</b>	No specific provision	Resolutions should be recommended by Board or carry Board's deliberations where not recommended	From 1 April 2018