



SEBI issues revised format for compliance report on corporate governance by listed entities

31 July 2019

First Notes on

Financial reporting
Corporate law updates
Regulatory and other information
Disclosures

Sector

All
Banking and insurance
Information, communication, entertainment
Consumer and industrial markets
Infrastructure and government

Relevant to

All
Audit committee
CFO
Others

Transition

Immediately
Within the next three months
Post three months but within six months
Post six months
Forthcoming requirement

Background

Regulation 27(2) of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) requires every equity listed entity to submit a quarterly compliance report on corporate governance (report) to the recognised stock exchange(s) within 15 days from the close of the quarter in the format specified by SEBI.

Accordingly, SEBI through its circular (no. CIR/CFD/CMD/5/2015) dated 24 September 2015 specified the formats for the report to be submitted:

- a) On a quarterly basis
- b) At the end of Financial Year (FY) (for the whole of FY)
- c) At the end of six months after the end of FY. This may be submitted along with second quarter report.

Further, Regulation 17(3) of the Listing Regulations also requires the board of directors of the listed entity to periodically review the above reports as well as steps taken by the listed entity to rectify instances of non-compliances.

New development

On 16 July 2019, SEBI through its circular (no. SEBI/HO/CFD/CMD1/CIR/P/2019/78) issued revised formats for compliance report on corporate governance. The modifications to the formats have been made on the basis of the recent changes made to the Listing Regulations pursuant to Kotak Committee and other amendments.

This issue of First Notes provides an overview of the modified formats issued by SEBI.



Compliance report on corporate governance to be submitted on a quarterly basis

Key additions made to the respective sections of the report are as follows:



Composition of board of directors

- Whether regular chairperson has been appointed
- Whether chairperson is related to Managing Director (MD) or Chief Executive Officer (CEO)



Composition of committees (e.g. NRC¹, SRC² and RMC³)

- Whether regular chairperson has been appointed
- Date of appointment and cessation of the term of the committee members



Meetings of board of directors and committees

- Whether the requirement of quorum has been met
- Number of directors and independent directors present in the meetings

The above details are to be furnished only for the current quarter's meetings.



Compliance report on corporate governance to be submitted at the end of FY (for the whole of FY)

Key additions made to the respective sections of the report are as follows:



Disclosures on website

The listed entities are now required to provide the links of their website, *inter alia*, for the following disclosures:

- Schedule of analyst or institutional investor meets and presentations made by the listed entity to analysts or institutional investors simultaneously with submission to stock exchange
- Credit rating or revision in credit rating obtained by the entity for all its outstanding instruments
- Separate audited financial statements of each subsidiary of the listed entity in respect of a relevant FY
- Materiality policy as per Regulation 30 of the Listing Regulations
- Dividend distribution policy as per Regulation 43A of the Listing Regulations (as applicable).



Annual affirmations

- Disclosure of related party transactions on consolidated basis
- Compliance with norms relating to maximum number of directorships as prescribed in Regulation 17A of the Listing Regulations
- Declaration from independent directors as required by Regulation 25(8) of the Listing Regulations
- Compliance with the number of meetings required for NRC, SRC and RMC i.e. met at least once a year
- Requisite quorum has been maintained for the:
 - Board meetings:* One-third of its total strength or three directors, whichever is higher (including at least one independent director)
 - NRC:* One-third of its members or two members, whichever is higher (including at least one independent director).

¹Nomination and Remuneration Committee

²Stakeholders Relationship Committee

³Risk Management Committee



Compliance report on corporate governance to be submitted at the end of six months after the end of FY

A listed entity is additionally required to affirm whether the chairperson of the SRC was present at the Annual General Meeting (AGM) to answer queries of the security holders.



Sign-off of the compliance report on corporate governance

Currently, the above reports can be signed either by the compliance officer or the CEO. As per the revised formats, they can now also be signed by the Chief Financial Officer (CFO) of the listed entity.



Effective date: The revised formats have been made effective from the quarter ending 30 September 2019.

Our comments

SEBI undertook various amendments to the Listing Regulations pursuant to Kotak Committee recommendations. The amendments aim towards better corporate governance for listed entities. Some of these amendments required consequential changes to be made to the format of the compliance report.

The key compliances to be additionally reported in the report are as follows:

- **Chairperson is related to the MD or CEO:** The amendments to the Listing Regulations require top 500 equity listed entities to ensure that the chairperson of the board of such listed entities should be a non-executive director and not related to the MD or the CEO. This requirement is effective from 1 April 2020.

Additionally, the revised compliance report issued by SEBI requires every equity listed entity (not top 500 equity listed entities) to disclose whether chairperson is related to MD or CEO on a quarterly basis. Therefore, it seems that the requirement in the compliance report requires a disclosure of the fact if chairperson is related to MD or CEO, from quarter ending September 2019.

- **Quorum for the board meeting:** Every equity listed entity is required to ensure that the quorum for every meeting of the board of directors should be one-third of its total strength or three directors, whichever is higher, including at least one independent director. The requirement has been made applicable to top 1,000 listed entities with effect from 1 April 2019.

Accordingly, the revised compliance report issued by SEBI requires compliance with the above requirement to be disclosed on a quarterly basis effective 30 September 2019 and will also form part of annual disclosures. Though as per the amendment, the requirement is applicable to top 1,000 listed entities from 1 April 2019, the revised report does not specifically provide that the disclosure requirement will be only applicable to 1,000 listed entities and not to others. Therefore, SEBI should consider providing clarity to this extent.

- **Disclosure on websites:** The amendments to the Listing Regulations pursuant to Kotak committee recommendations require certain disclosures to be made on the website of equity listed entities. These are as follows:
 - a) Separate section for investors on the website for all information mandated under Regulation 46(2) of the Listing Regulations
 - b) Credit rating or revision in credit rating obtained for all outstanding instruments
 - c) Separate audited financial statements of each subsidiary of the listed entity in respect of a relevant financial year, uploaded at least 21 days prior to the date of the AGM which has been called to, *inter alia*, consider accounts of that financial year.

The above requirements have been made effective from 1 April 2019.

Accordingly, the revised formats require that the above disclosures should be reported at the end of FY to the stock exchanges. Additionally, listed entities are also required to furnish against each item required to be disclosed on the website, the link of the website where it has been posted/uploaded.

- **Sign-off of the report:** As per Regulation 27(2) of the Listing Regulations, compliance report on corporate governance is required to be signed either by the compliance officer or the CEO of the listed entity. However, the revised compliance report format allows the report to be signed by the compliance officer, MD, CEO or CFO of the listed entity. Therefore, SEBI should consider making necessary amendment to the Listing Regulations for the purpose of maintaining uniformity in the Listing Regulations and the format of the report.

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Missed an issue of Accounting and Auditing Update or First Notes



Issue no. 36 – July 2019

The topics covered in this issue are:

- Accounting for investments through preference shares in associates and/or joint ventures
- SEC amends Regulation S-K disclosures
- Regulatory updates.



ITFG clarifications' bulletin 20

11 July 2019

The Ind AS Technical Facilitation Group (ITFG) of the Institute of Chartered Accountants of India (ICAI) issued its ITFG clarifications' bulletin 20 on 27 June 2019. It provides clarifications on five issues relating to various Ind ASs.

This edition of First Notes provides an overview of the issues clarified by ITFG.



Voices on Reporting

KPMG in India is pleased to present Voices on Reporting (VOR) – a series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

On 4 July 2019, KPMG in India organised a VOR webinar to discuss key financial reporting and regulatory matters that are expected to be relevant for stakeholders for the quarter ended 30 June 2019.

Recently, KPMG in India released its VOR - quarterly update publication (for the quarter ended 30 June 2019). The publication provides a summary of key updates from the Ministry of Corporate Affairs, the Securities and Exchange Board of India and the Reserve Bank of India.

The presentation and the publication can be accessed from KPMG in India's website.

Feedback/queries can be sent to aaupdate@kpmg.com

Previous editions are available to download from: home.kpmg/in

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