



SEBI implements Kotak Committee recommendations



18 May 2018

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Welcome



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**Report of the committee
on corporate
governance**



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**Recommendations
approved by SEBI**



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**Amendments to the
SEBI Listing Regulations**



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**Applicability and impact of
the amendments**



Speakers for the call



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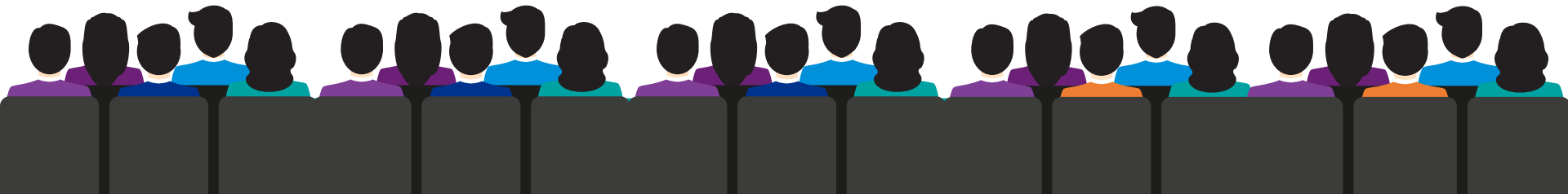
Governance Risk and
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Ruchi Rastogi

Partner

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SEBI implements Kotak Committee recommendations

Recent developments - Quick recap

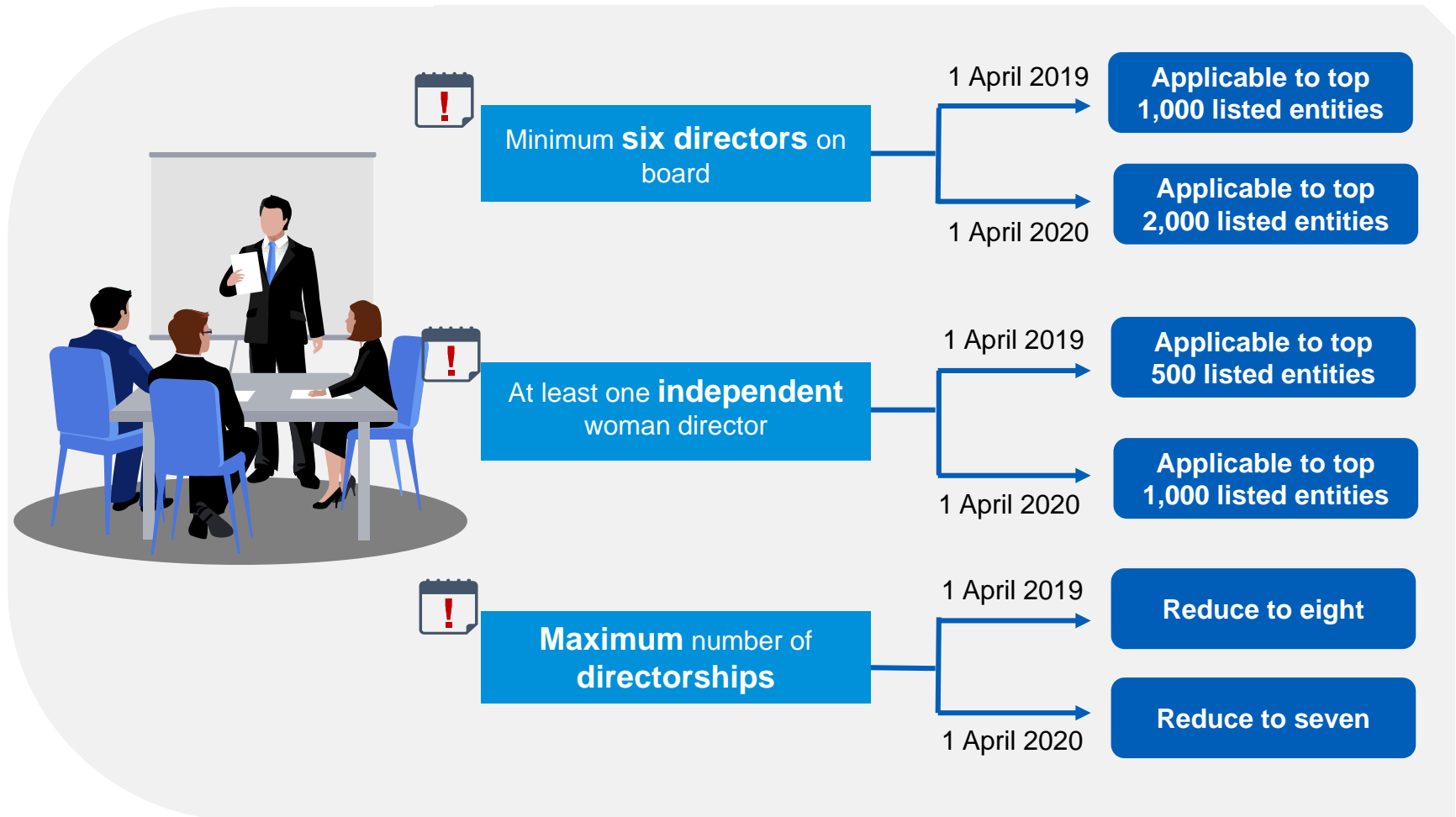


Broad categories of amendments



Strong foundation of monitoring and enforcement mechanism

Composition and role of the board of directors



Composition and role of the board of directors (cont.)



Chairperson to be a **non-executive director** and **not related to MD or CEO** as per the definition of 'relative' under the Companies Act, 2013.

1 April 2020

Applicable to top 500 listed entities



Quorum for board meeting - Higher of:

- One-third of its total strength or
- Three directors.

*(*Including at least one independent director.)*

1 April 2019

Applicable to top 1,000 listed entities

1 April 2020

Applicable to top 2,000 listed entities



Disclosure of expertise/skills of directors

FY ending 31 March 2019

List of core skills/ expertise/competencies identified by the BoD

FY ending 31 March 2020

Names of directors who have such skills/ expertise/competence

Institution of independent directors



Amendments applicable from

1 October 2018



Revised eligibility criteria

- Specifically exclude persons who constitute the 'promoter group' of a listed entity
- Exclude 'board inter-locks' i.e. a non-independent director of another company on the board of which any non-independent director of the listed entity is an independent director.

Appointment of an alternate director for an independent director would **not** be permitted.

Mandatory Directors and Officers (D&O) insurance for independent directors of top 500 listed entities.



Institution of independent directors (cont.)



Amendments applicable from

1 April 2019



An independent director would provide a **declaration** that he/she is not aware **of any circumstance/situation**, that could impair or **impact his/her ability to discharge his/her duties**.



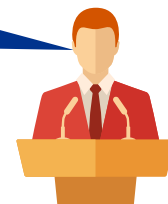
Performance evaluation criteria should include:

- Performance of the directors
- Fulfilment of the independence criteria
- Independence from the management.

Disclose detailed **reasons for resignation** of an independent director before the expiry of his/her tenure **within seven days of resignation** to the stock exchange.



Board Committees



Amendments applicable from

1 April 2019

Enhanced role of an audit committee

Review the **utilisation of loans** and/or advances from/investment **by the holding company in the subsidiary** exceeding INR100 crore or 10 per cent of the asset size of the subsidiary, whichever is lower.

Risk Management Committee (RMC)

- Extend the requirement of a RMC to the **top 500 listed entities** (currently 100)
- Specifically cover **cyber security** in its role.

Enhanced role of Nomination and Remuneration Committee (NRC)

- Recommend all **payments made to senior management** to the BoD
- Senior management would include all members one level below the CEO/MD/WTD/manager (including CEO/manager, in case not part of the board) and specifically include the company secretary and the CFO.

Stakeholders' Relationship Committee (SRC)

- Members to include minimum **three directors** with at least **one independent director**
- Chairperson to be present at the AGM to answer queries of security holders
- **Enhanced role** to, *inter alia*, include review of measures taken for:
 - Effective exercise of voting rights by shareholders
 - Reducing the quantum of unclaimed dividends.

Members of NRC, RMC and SRC to meet at least once a year.

Monitoring group entities and related parties



Mechanisms to monitor multiple unlisted subsidiaries

Applicable from 10 May 2018

- Dedicated **group governance unit or Governance Committee** comprising the members of its BoD
- Strong and effective **group governance policy** to be formulated.

Monitoring group entities and related parties (cont.)



Related Party Transactions (RPTs)

- **Disclose transactions** with promoters/promoter group entities holding **10 per cent or more** shareholding annually
- **Half yearly disclosure** of RPTs on a **consolidated basis**.

FY ending
31 March
2019

Half-year ending
31 March 2019

1 April 2019

- Consider **promoters/promoter group entities** that hold **20 per cent or above** in a listed entity as related parties
- **Shareholders' approval** (majority of minority) for **royalty and brand payments** to related parties exceeding **two per cent** of consolidated turnover
- Materiality policy to include **clear threshold limits** duly approved by BoD; to be reviewed at least once in three years and updated
- Related parties permitted to **cast a negative vote** and **not to vote to approve**.



Secretarial audit

Year ended 31 March 2019

Mandatory for **all** listed entities and their **material unlisted subsidiaries** incorporated in India.



Monitoring group entities and related parties (cont.)



Amendments applicable from

1 April 2019



Obligations on the board with respect to subsidiaries

- Definition of a '**material subsidiary**' revised to mean a subsidiary whose income or net worth **exceeds 10 per cent** of the consolidated income or net worth
- At least **one independent director** on the BoD of a listed entity to be a director on the BoD of an unlisted **foreign material subsidiary**.

Remuneration to directors



- **Executive promoter directors:** Shareholders' approval by a **special resolution**, if remuneration paid to a single executive promoter director and to all executive promoter directors exceeds specified limits
- **Non-executive directors:** Shareholders' approval by a **special resolution** is required every year, in which the annual remuneration to a single non-executive director **exceeds 50 per cent of the total remuneration** payable to all non-executive directors.



Accounting and audit related matters



Amendments applicable from

1 April 2019



Quarterly financial disclosures

- **Mandatory** disclosure of **consolidated financial results** on a **quarterly** basis
- Limited review/audit of at least **80 per cent** of the financial information of the group i.e. consolidated revenue, assets and profits
- **Mandatory** disclosure of **cash flow statement** on a **half-yearly** basis
- Financial results in respect of **last quarter** could be audited/**limited reviewed**
- Disclose by way of note aggregate effect of **material adjustments** made in the results of the **last quarter** pertaining to **earlier periods.**



Accounting and audit related matters (cont.)



Amendments applicable from

1 April 2019

Other significant matters

- **Mandatory quantification of audit qualifications** – exception for matters like going concern or sub-judice matters
- **Statutory auditor** of the listed entity shall undertake a **limited review of the financial results** of all the entities/companies whose accounts are to be **consolidated** with the listed entity
- Disclose:
 - **Basis of recommendation** for appointment of an auditor
 - Total **fees** paid to the **statutory auditor (including entities in the network firm/entity)**
 - **Reasons for resignation** of an auditor/audit firm.



Disclosures and transparency



Amendments applicable from

9 May 2018

Searchable formats of disclosures



- **Disclosures on entity's website:** In a user friendly searchable format
- **Disclosures to stock exchange:** In XBRL format.

Amendments applicable from

10 May 2018

Additional disclosures on board evaluation



- **Observations** of board evaluation carried out for the year
- Previous year's observations and **actions taken**
- **Proposed actions** based on current year observations.

Additional disclosure in the management discussion and analysis section of the annual report



- Entity's **medium-term and long-term strategy** based on a time frame as determined by its BoD.



Disclosures and transparency (cont.)



Amendments applicable from

1 October 2018



Disclosures on an entity's website:

- Disclose credit ratings obtained for all its outstanding instruments
- Immediately update any revision in such credit ratings.

Submit **advance notice** for consideration of **bonus issue** by the board to the stock exchanges.



Disclosures and transparency (cont.)



Key additional disclosures in the annual report

FY ending
31 March 2019

Amendments applicable from

- List of **core skills/expertise/competencies** identified by the BoD for it to function effectively and those actually available with the board
- For each director, disclose the **names** of the listed entities where he/she is a director and the **category of directorships**
- Significant **changes in key financial ratios** (i.e. 25 per cent or more as compared to previous FY); any change in net worth
- **Utilisation** of proceeds of **preferential issues and qualified institutional placement** till the time such proceeds are utilised
- **Recommendations of any committee of the board** mandatorily required in a financial year **not accepted by the board** along with reasons.

FY ending
31 March 2020

Applicable from

Names of directors who have such skills/expertise/competence

Year ended
31 March 2019



Investor participation



Amendments applicable from

1 April 2019

Timeline for AGMs

- Hold **AGMs by 31 August 2019** i.e. within five months from the end of the FY2018-19.
- **One-way live webcast** of the proceedings of the AGMs.

Applicable to top 100 listed entities

Resolution to shareholders without board's recommendation

For any resolution placed before the shareholders, the BoD should clearly indicate their **recommendations**.





Q&A



Sources



1. Report submitted by the SEBI Committee on Corporate Governance dated 5 October 2017.
2. SEBI press release PR No. 09/2018 dated 28 March 2018.
3. SEBI notification no. SEBI/LAD-NRO/GN/2018/10 dated 9 May 2018.
4. SEBI circular no. SEBI/HO/CFD/CMD/CIR/P/2018/79 dated 10 May 2018.





- Listing Regulations - SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- SEBI - The Securities and Exchange Board of India
- BoD - Board of Directors
- RPTs - Related Party Transactions
- MD - Managing Director
- WTD - Whole Time Director
- CEO - Chief Executive Officer
- CFO - Chief Financial Officer
- FY - Financial Year
- RMC - Risk Management Committee
- SRC - Stakeholders' Relationship Committee
- NRC - Nomination and Remuneration Committee
- XBRL - Extensible Business Reporting Language
- AGM – Annual General Meeting





Thank you

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