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Sebi notifies new governance norms for listed firms, splits CMD post

As per Sebi's new governance norms, companies will have six independent directors including a woman

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On 28 March, the Sebi after the meeting of its board accepted 40 of the 80 recommendations of the Uday Kotak panel. Photo: Mint

Mumbai: The market regulator Securities and Exchange Board of India (Sebi) on Thursday notified changes in the governance norms for listed companies to enhance governance and transparency.

Separately, it issued a circular on the non-mandatory provisions such as disclosures of board evaluation, disclosure of medium and long-term strategy of the company and having an internal group governance committee.

Based on the Kotak panel recommendations, the regulator has decided to split the post of chairman and managing director (CMD) and also increased the number of independent directors to six including a woman director, the Sebi said in the gazette notification on Thursday.

"One would continue to debate the merit of such distinction (splitting the CMD post), the notification requires top 500 entities by market capitalisation (as on 31 March, 2019) to implement such change by 1 April, 2020. For companies that fall within the ambit may require reexamining their board structure with number of executive directors and overall strength." said Darshan Upadhyay, partner, Economic Laws Practice (ELP), a law firm.

According to the regulator splitting the CMD post will address conflict of interest.

The regulator in the norms also increased disclosure of related-party transactions and made secretarial audits for listed entities and their material subsidiaries mandatory.

On 28 March, the regulator after the meeting of its board has accepted 40 of the 80 recommendations of the Uday Kotak panel submitted in October last year.

The regulator asked top 500 companies to appoint at least one woman independent director by 1 April, 2019. A change from the current norms which requires one woman director.

Sebi has also put a cap on the number of directorships with independent directors not being allowed in more than seven listed companies.

"One of the concerns have been cross directorship and the notification has tried to address that by amending the requirement of considering an individual as independent directors." Said Upadhyay of ELP.

Sebi also enhanced the role of shareholders or give them more powers on company decisions.

A shareholder approval will be needed for making royalty or brand payments to related parties exceeding 2% of consolidated turnover.

Shareholders will also have a greater say in the remuneration of directors. For instance, in cases where the annual remuneration payable to a single non-executive

director exceeds 50% of the total annual remuneration payable to all non-executive directors, if the annual fee payable to executive director, who is part of promoter entity, exceeds Rs5 crore or 2.5% of the net profits of the listed entity.

Sebi also increased the size of the quorum for every board meeting of top 1,000 listed firms from 1 April, 2019 to be be one-third of its total strength or three directors, whichever is higher, including at least one independent director.

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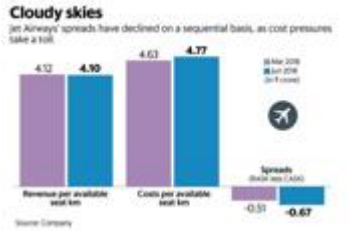

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