



SEBI proposes overhaul of corporate governance norms | Issues consultation paper for LODR changes

INSIGHTS

September 12, 2020

Dear Readers,

SEBI has issued a consultation paper dated September 11, 2020, proposing certain changes to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (**LODR Regulations**) to:

- Strengthen corporate governance practices and disclosure requirements;
- Ease the compliance burden on listed entities;
- Carry out other amendments inter-alia to maintain consistency within the LODR Regulations, harmonize the LODR Regulations with the Companies Act, 2013 and maintain gender neutrality.

Key proposals are summarized below:

- **Once a top 100/500/1000/2000 company, always a top 100/500/1000/2000 company with respect to applicability of LODR Regulations:** It is proposed that provisions that become applicable to a listed entity on the basis of market capitalization, shall continue to apply irrespective of change in the market capitalization;
- **Once corporate governance provisions are applicable, they will always be applicable:** It is proposed that once corporate governance provisions (regulations 17 to 27, clauses (b) to (i) of sub-regulation (2) of regulation 46 and para C, D and E of Schedule V) become applicable to a listed entity, it shall comply with those provisions irrespective of change in paid up capital or net worth;
- **Reduction of shareholding in material subsidiary less than or equal to 50%:** Current provisions envisage special resolution requirement if listed entity disposes of shares in its material subsidiary resulting in reduction of its shareholding (either on its own or together with other subsidiaries) to less than 50% or cease the exercise of control over the subsidiary. To remove the misuse of the provision where stake is reduced to exactly 50% (and the subsidiary ceases to be a subsidiary as per Companies Act, 2013), it is proposed that 'less than 50%' will be read as 'less than or equal to 50%';
- **Financial results to be disclosed within 30 minutes of approval of financials and not conclusion of board meeting:** It is proposed that regulation 30 (6) may be amended, such that disclosure of financial results is made within 30 minutes from the conclusion of the discussion on the agenda, rather than the conclusion of the board meeting;
- **Dividend Distribution Policy to be framed by top 1000 companies instead of top 500 companies:** It is proposed to extend the requirement for formulating and disclosing the dividend distribution policy to the top 1000 listed entities, by market capitalization.
- **Alignment of corporate debt restructuring related disclosures with Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019 (RBI Directions):** The Corporate Debt Restructuring scheme has been withdrawn by RBI and has been replaced with the RBI Directions. The following events in relation to resolution plan/restructuring of loans/borrowings from banks/financial institutions, as applicable, will need to be disclosed as material event: (i) Decision to initiate resolution of loans/borrowings; (ii) Signing of Inter-Creditors Agreement (**ICA**) by lenders; (iii) Finalization of Resolution Plan; (iv) Implementation of Resolution Plan; (v) Salient features, not involving commercial secrets, of the resolution/restructuring plan as decided by lenders;
- **Prior intimation required for bonus issuance, whether or not agenda papers delivered to the board:** It is proposed that advance notice should be given for consideration of bonus issue by the board of listed entity, irrespective of whether the same forms part of the agenda papers;
- **Consolidation of financial statements of foreign subsidiary:** The requirement of consolidation of financial statements of foreign subsidiary is aligned with the laws applicable to such subsidiary. Therefore, it is proposed that in cases where a foreign subsidiary is not obligated to get its financial statements audited, the listed company can comply by placing such unaudited financial statements on its website. Further, in cases where the foreign subsidiary is required under any law of

the country of its incorporation to prepare consolidated financial statements, the listed company can place such consolidated financial statements on its website.

In addition to aforementioned, various other changes have been proposed to ease compliance burden; governance, disclosures, alignment with the Companies Act, 2013 and consistency. Terms such as 'firm', 'working days' have been proposed to be defined, and definition of 'independent director' is proposed to be aligned with the Companies Act, 2013, except that a lower monetary threshold is proposed to be retained for relationship with relatives.

The consultation paper dated September 11, 2020, is [available here](#), and public comments are invited till October 11, 2020.

We trust that you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com

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