



SEBI proposes changes in risk management framework of listed companies | Issues Consultation Paper for Public Comments

Recognizing that risk management is a critical function of the board of directors of listed companies, the Securities and Exchange Board of India (SEBI) has issued a consultation paper (Consultation Paper) relating to the applicability and role of the risk management committee (RMC) under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations). The proposed changes are in relation to:

- extending the requirement of formation of RMC to a larger number of listed entities;
- define the role and responsibilities of the RMC in the LODR Regulations; and
- increase the frequency and define a quorum for the meetings of the RMC.

Summarized below are the proposals:

Applicability	Applicability is proposed to be extended from the top 500 to the top 1000 listed entities, on the basis of market capitalization.
Role and responsibilities of RMC	<p>Presently, what should be the role and responsibilities of a RMC (except for cyber-security risk) is left to the discretion of board of directors of listed entities. SEBI proposes to define the role and responsibilities of RMCs, to include following:</p> <ul style="list-style-type: none">▪ To formulate a detailed risk management policy which shall include:<ul style="list-style-type: none">– A framework for identification of internal and external risks specifically faced by the listed entity, in particular including financial, operational, sectoral, sustainability (specifically, Environmental, Social and Governance related risks and impact), information and cyber security risks;– Measures for risk mitigation;– Systems for internal controls;– Business contingency plan.▪ To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management and internal control systems;▪ Ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the listed entity;▪ To review the risk management policy on annual basis, including by considering the changing industry dynamics and evolving complexity;▪ To keep the board informed about the nature and content of its discussions, recommendations and actions to be taken;▪ The appointment, removal and terms of remuneration of the Chief Risk Officer (if any) shall be subject to review by the RMC, jointly with the Nomination and Remuneration Committee (NRC).▪ The risk management committee shall coordinate its activities with the Audit Committee in instances where there is any overlap with audit activities.

Power to seek information/ external legal advice/ professional advice	In line with the powers of the Audit Committee under LODR Regulations, it is proposed that the RMC shall also have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.
Frequency of meetings	SEBI has proposed that the frequency of the meetings be increased to at least twice in a year, as compared to once.
Quorum for meetings	It is proposed that the quorum for a meeting of the RMC may be either two (2) members or one-third (1/3) of the members of the RMC, whichever is greater, including at least one (1) member of the board of directors in attendance.

The details of amendments proposed to LODR Regulations are provided under the Consultation Paper dated November 10, 2020 ([available here](#)). SEBI has sought comments from the public on the Consultation Paper, which can be given till December 10, 2020.

We trust 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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