

# IOD's Recommendations

on SEBI's Committee Report on Corporate Governance

**\*Comments are welcome from Members**

Sr. No	SEBI Recommendation in the report to which the comment pertains	Comment	Rationale for the comment
1	Chapter I 1. Minimum Number of Directors on a Board	There should not be less than 6 directors on the board.	a. The implementation should be staggered to ensure SMEs also get fully integrated, with an extended time-frame.  b. The criteria for staggered timeframe be 'equity capital' based, and not top 200 or 500 companies. Induction of over 400 new directors for this purpose will need about 4 years.
2	Chapter I 2. Gender Diversity on the Board	1. Each board to have at least one woman independent director. 2. 50% of the board should comprise of Independent directors.	a. Previous instructions regarding having at least one woman director on each board could not be fully implemented as yet. A stricter enforcement is required. A woman independent director should be further qualified as 'not related to promoters or main shareholders'. A staggered time for its implementation, based on 'equity capital' criteria be laid down, as over 650 independent women directors (board-ready) would be required.  b. The requirement of 50% of the board to be independent is strongly recommended for acceptance. Act may be amended suitably.
3	Chapter I 3. Attendance of Directors	If a director fails to attend 50% of the board meetings in previous 2 years (on rolling basis), his/her continuance on the board should be ratified by the shareholders at the next AGM.	Should be accepted.
4	Chapter I 4. Disclosure of Expertise /Skills of Directors	The Annual Report (under corporate governance), should cover a skill/expertise/competence 'Matrix' of the board of directors.	Recommended for acceptance. Such a matrix would ensure proper selection of independent directors to fill the competence gaps of the board. An 'equity capital' based time frame be approved for its smooth implementation.
5	Chapter I 5. Approval for Non-executive Directors on Attaining a Certain Age	A maximum age of 75 has been recommended, with exceptions requiring special resolution justifying it.	Strongly recommended for acceptance. Presently over 1110 such directors (>75 years age) are occupying these posts. All these should be reviewed and confirmed after special resolutions are cleared in their cases.
6	Chapter I 6. Minimum Number of Board Meetings	Minimum meetings be 5 times/year, in place of 4/year.	Recommend for implementation.
7	Chapter I 7. Updation of Knowledge of the Board Members	Formal updation training be ensured for the board of directors – on applicable laws, regulations and compliance requirements	a. A very important recommendation for ensuring 'Boardroom Effectiveness', and smooth compliance implementation. b. Compliance of this should be reported in the annual report, under the 'Corporate Governance' portion.
8	Chapter I 8. NED Engagement with the Management	Undertake at least one planned formal interaction between the non-executive directors and senior management, each year.	It would be useful, and could be covered with the 5 <sup>th</sup> board meeting proposed by the committee.

Sr. No	SEBI Recommendation in the report to which the comment pertains	Comment	Rationale for the comment
9	Chapter I 9. Quorum for Board Meetings	Minimum of 3 directors, including at least one independent director.	Recommended for acceptance.
10	Chapter I 10. Separation of the Roles of Non-executive Chairperson and Managing Director/CEO	Where public shareholding is 40% or more, chairman should be a NED, thus separating the roles of Chairman and Managing Director/CEO.	a. The roles of Chairman and MD/CEO be separated in all cases, irrespective of the percentage of public shareholding. b. Chairman to be NED for all companies, where public share holding exceeds 40%.
11	Chapter I 12. Maximum Number of Directorships	Maximum directorship to be held by a person, not to exceed 8.	Recommended for acceptance. Hardly any change would be required.
12	Chapter I 13. Disclosures on Board Evaluation	Include observations and follow up actions proposed or undertaken on them in Annual Report.	a. Recommend acceptance. It is an important measure for improving board effectiveness, and it should be supported in full measures. b. IOD recommends that this provision be further strengthened on lines of UK practice i.e. at least once in every 3 years, the evaluation be carried out by a 3 <sup>rd</sup> party.
13	Chapter II 2. Eligibility Criteria for Independent Directors	Additional criterias recommended.	IOD fully endorses the committee recommendations. The Companies Act, 2013 to be amended suitably.
14	Chapter II 3. Minimum Compensation to Independent Directors	Minimum total remuneration to independent directors has been proposed	Recommended as guidelines for companies with adequate market capitalisation and net profits.
15	Chapter II 4. Disclosures on Resignation of Independent Directors	The Committee recommendation is for disclosing the reasons for resignation.	a. Recommended for acceptance. b. It will bring a greater level of transparency at board proceedings and enhance the levels of Corporate Governance.
16	Chapter II 7. Alternate Directors for Independent Directors	No person should be appointed as an alternate director for an independent director.	The committee has justified the need for the recommendation. The Act can be amended, if the reasons for the recommendation are accepted.
17	Chapter II 8. Lead Independent Director in Companies with Non-independent Chairperson	A lead independent director to be appointed with specific duties, in case the chairman is an Executive.	Recommended for acceptance
18	Chapter IV 2. Group Governance Unit/Committee and Policy		Jurisdiction is a technicality. Going beyond the words, it's more about protection of interest of the investors. While unlisted subsidiary is not directly coming under the jurisdiction; however, thru consolidation of the accounts with the listed company; the interest of the investors of the listed entity is directly affected. Hence, the jurisdiction issue, if need be, should be amended for greater good.  Committee recommendation should be accepted

Sr. No	SEBI Recommendation in the report to which the comment pertains	Comment	Rationale for the comment
19	Chapter V 2. Re-classification of Promoters/Classification of Entities as Professionally Managed	The Committee has recommended increasing the threshold limit from 1% to 10% for re-classification of promoters/promoter groups. It feels the limit of 1% is too low.	While committee view of 1% holding to be too low a limit is true, increasing it to 10% may not be in sync with investor protection. The raising of the threshold to 5% is recommended.
20	Chapter VII 11 B. Powers of SEBI with Respect to Auditors and Other Statutory Third Party Fiduciaries for Listed Entities	Committee has recommend for SEBI to have powers to act against auditors and others.	<p>The Chartered Accountants Act, 1949 has the jurisdiction over CAs and Auditors. The Company's Act 2013 places responsibilities on the entire board of Directors and on the Chairman of the Audit Committee who is required to be an Independent Director.</p> <p>In many instances of financial irregularities of a Listed Entity, Auditors connivance and /or laxity has been observed. If the ID as a Chairman of Audit Committee has legal responsibilities, then it stands to reason that the Auditor's responsibilities also need to be examined from the listed Entities angle for which SEBI is the regulator.</p> <p>It is not an impossible task to segregate professional misconduct from a financial misdemeanour. So conflict of jurisdiction can be resolved between SEBI and ICAI.</p> <p>SEBI needs to be empowered to prosecute Auditors for financial misdeeds related to listed companies.</p>

\*Comments can be emailed on [info@iodglobal.com](mailto:info@iodglobal.com)



12th International Conference on  
**CORPORATE  
SOCIAL  
RESPONSIBILITY**  
9 - 10 February 2018, Bengaluru, India

also presentation of



**Golden Peacock Awards**  
*A Strategic Tool to Lead the Competition*

*for* Corporate Social Responsibility  
& HR Excellence

Theme:

**"Responsible CSR:**

**A New Agenda Beyond Governance"**

**Block  
your  
Calendar**