



## SEBI Board Meeting

The SEBI Board met in New Delhi today and inter-alia, took the following decisions:

### I. Separation of role of Chairperson and MD/CEO

SEBI had set up a committee on Corporate Governance in June 2017 under the Chairmanship of Shri Uday Kotak (Kotak Committee) with a view to seeking recommendations to further enhance the Corporate Governance norms for the listed companies. The Committee was represented by diverse stakeholders including Large Listed Companies, Industry Bodies such as CII & FICCI, Professional Bodies like ICAI & ICSI, Proxy Advisory Firms, Global consultancy firms, Law firms, Stock Exchanges, Academicians etc.

The Committee held deliberations on different aspects of Corporate Governance including issues impinging on effective functioning of the Boards of listed companies and came out with various recommendations and suggested measures for bringing about reforms and improvement in Corporate Governance practices.

One of the recommendations of the Committee related to the separation of role of Chairperson and MD/CEO of listed companies. The main rationale for the recommendation was that separation of powers of the Chairperson and MD/CEO may provide a better and more balanced governance structure by enabling more effective and objective supervision of the management.

The SEBI Board, in its meeting of March 2018, had considered and approved the proposals including the one relating to separation of the role of Chairperson and MD/CEO of listed companies.

In pursuance of SEBI Board's approval, vide SEBI (LODR) were amended in May 2018 mandating, with effect from April 1, 2020, top 500 listed entities to ensure that the Chairperson of the board shall –

- a. *be a non- executive director;*
- b. *not be related to the Managing Director or the Chief Executive Officer as per the definition of the term “relative” defined under the Companies Act, 2013*

Thereafter, considering that the companies may need more time to prepare themselves for the transition and various other difficulties highlighted by the industry representatives, the deadline for compliance was extended by two years in January 2020. As things stand now, the provision for mandating Separation of the role of Chairperson and MD/CEO of listed companies will be applicable from April 01, 2022 for top 500 Companies.

As the revised deadline is less than two months away, on a review of the compliance status it is seen that the compliance level, which stood at 50.4% amongst the top 500 Listed Companies as on September 2019, has progressed to only 54% as on December 31, 2021. Thus there has been barely a 4% incremental improvement in compliance by the top 500 listed companies over the last two years, hence, expecting the remaining about 46% of the top 500 listed companies to comply with these norms by the target date would be a tall order. Meanwhile SEBI continues to receive representations from industry bodies and corporates expressing various compelling reasons, difficulties and challenges for not being able to comply with this regulatory mandate.

Considering rather unsatisfactory level of compliance achieved so far, with respect to this corporate governance reform, various representations received, constraints posed by the prevailing pandemic situation and with a view to enabling the companies to plan for a smoother transition, as a way forward, SEBI Board at this juncture, decided that this provision may not be retained as a mandatory requirement and instead be made applicable to the listed entities on a “voluntary basis”.

## **II. Amendment to SEBI (Alternative Investment Funds) Regulations, 2012**

The Board approved amendment to SEBI (Alternative Investment Funds) Regulations, 2012, providing flexibility to Category III Alternative Investment Funds (AIFs) to calculate the investment concentration norm based either on investable funds or net asset value of the fund while investing in listed equity of investee company, subject to the conditions as may be specified by the Board.

## **III. Alignment of regulatory framework for 'security cover', disclosure of credit ratings and due diligence certificate**

The Board approved the following amendments to SEBI (Debenture Trustee) Regulations, 1993, SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 and SEBI (Listing Obligations and Disclosure Requirements), 2015:

1. to align the framework and terminology with respect to 'security cover' wherein the term 'asset cover' has been substituted with term 'security cover' in SEBI (Debenture Trustee) Regulations, 1993, and SEBI (Listing Obligations and Disclosure Requirements), 2015; and
2. to prescribe the maintenance of security cover sufficient to discharge both principal and interest thereon in SEBI (Listing Obligations and Disclosure Requirements), 2015.

Further, references with respect to disclosure of credit ratings have been rationalized and due diligence certificate for unsecured debt securities has been prescribed in SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021.

Above amendments are expected to bring uniformity and consistency in these regulations.

**New Delhi**  
**February 15, 2022**