

SIGNIFICANT CHANGES IN LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE) REGULATIONS, 2019

1. PRELIMINARY

Comply or Explain Approach:

The Code introduces 'Comply or explain approach' with respect to non-mandatory provisions of the Regulations. It is now on descretion of the Company to either comply or provide appropriate explanation as to any impediment in its compliance in the compliance report.

2. NUMBER OF DIRECTORS [Regulation no. 03]

Number of directorships in other listed companies that a Director can hold at the same time has been increased from 5 to 7.

3. INDEPENDENT/EXECUTIVE DIRECTOR [Regulation no. 06 & 8]

An explanation has been provided in sub- regulation (1) which provides that while calculating one-third number, if there is any fraction available, which has not been rounded up as one, in such case, a company is required to explain the reasons of it, in its compliance report.

4. RESPONSIBILITY OF BOARD [Regulation no. 10]

The provisions relating to investment and divestment of funds, nature of loans, and level of determination of materiality, as provided in regulation 10(3)(vi)(vii) of the previous regulations has been excluded from the responsibilities of BOD.

5. RELATED PARTY TRANSACTIONS [Regulation no. 15]

As a result of introduction of section 208 in the Companies Act, 2017 regarding related party transactions, regulation 15 of the Code of Corporate Governance (Regulations) 2017 has been omitted. Since as per the said section, in case where a director or number of directors are interested in any transaction, the matter is required to be referred to General Meeting for its approval.

6. CONFLICT OF INTEREST [Regulation no. 16]

Previously as per 2017 regulation, incase where any of the director has a conflict of interest in any transaction which needs to be considered and approved by the Board, the quorum of the meeting shall not be completed unless at least two independent directors are present. In 2019 regulations the same has been omitted.

7. DETERMINATION OF REMUNERATION [Regulation no. 17]

The provision relating to engaging a consultant for the determination of director's remuneration to recommend appropriate level of remuneration for approval of the board, has now been omitted.

8. DIRECTORS' TRAINING [Regulation no. 19]

In regulations 2017, the directors' training was mandatory. However, in 2019 regulations, directors training is a non-mandatory provision. Now directors are encouraged to undertake the said training. Timeline of which is as follows:

- 50% of the directors are required to complete the training by or before 30 June 2020;
- 75% by 30 June 2021; and

9. AUDIT COMMITTEE
[Regulation no. 27]

The expression "financial literate" now include two more categories:

- c) individual having at least 10 years of experience as audit committee member; or
- d) individual having at least 20 years of senior management experience in overseeing of financial, audit related matters.

10. COMPOSITION OF INTERNAL AUDIT FUNCTION
[Regulation no. 31]

The sub-regulation for outsourcing of internal audit function has been amended and now any associated company or associated undertaking of external auditors cannot be appointed as internal auditors of the Company.

11. ROTATION OF AUDITORS
[Regulation no. 33]

In case of 'Sole proprietorship audit firm', the Company is required to change its external auditors after completion of five years as external auditors of a such company.

12. DIRECTORS' REPORT
[Regulation no. 34]

Companies are now required to include new category of Female director in their Directors' Report.

Further, in sub-regulation 3, companies are encouraged to provide details of remuneration of individual directors in annual report.

13. DISCLOSURE OF SIGNIFICANT POLICIES ON WEBSITE
[Regulation no. 35]

A. The Regulations now provide a suggestive list of significant policies which may be posted on the company's website. It includes:

- 1. communication and disclosure policy;
- 2. code of conduct for members of board of directors, senior management and other employees;
- 3. risk management policy;
- 4. internal control policy;
- 5. whistle blowing policy; and
- 6. corporate social responsibility/ sustainability/ environmental, social and governance related policy.

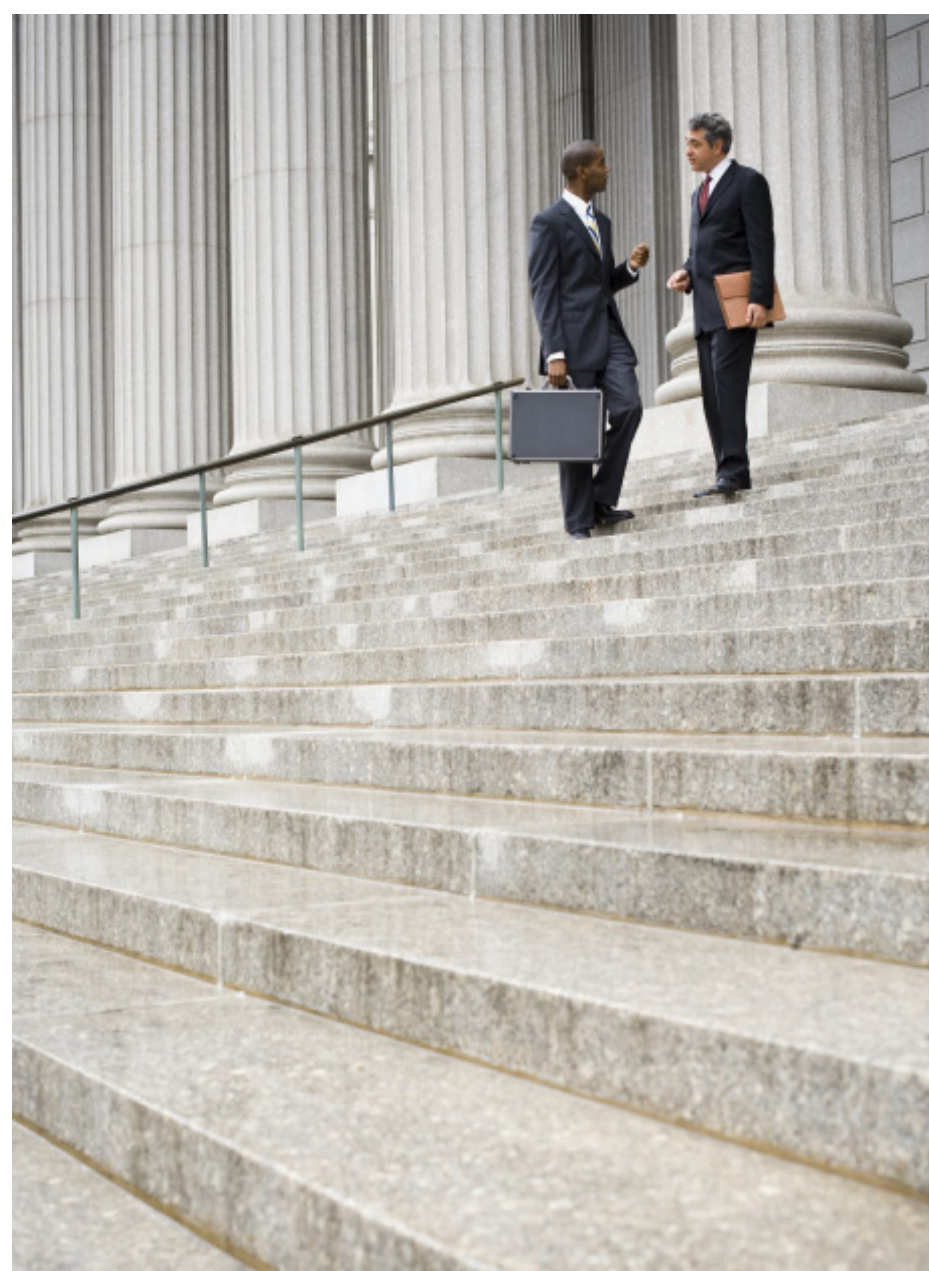
B. brief synopsis of terms of reference of the Board's committees including:

- 1. Audit Committee;
- 2. HR and Remuneration Committee;
- 3. Nomination Committee; and
- 4. Risk Management Committee.

C. key elements of the directors' remuneration policy.

14. PENALTY
[Regulation no. 37]

Contravention from only mandatory provisions (such as regulations 3, 6, 7, 8, 27, 32, 33 and 36) of the Regulations are punishable with a penalty of Rs. 5 million and if the contravention is a continuing one Rs.100,000 per day (section 512(2) of the Companies Act, 2017).



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