SEBI tightens rules on corporate governance

On a leash:The regulator has accepted 40 recommendations of the Kotak panel, says Ajay Tyagi.PTI

The Securities and Exchange Board of India (SEBI) has tightened the corporate governance norms for listed companies by accepting most of the recommendations of the Kotak Committee while also strengthening the regulations for derivatives and algorithmic trading.

At a board meeting held on Wednesday, the capital markets regulator decided to reduce the maximum number of directorships to seven from 10 in a phased manner while expanding the eligibility criteria for directors.

The regulator has also enhanced the roles of the audit committee along with those of the nomination and remuneration committee and the risk management committee at companies.

“We have accepted 40 recommendations of the committee while another 15 have been accepted with modifications,” SEBI Chairman Ajay Tyagi told the media. While eight of the panel’s recommendations had been referred to the Centre and other regulators, 18 had not been accepted, he added.

Further, the new norms relating to the number of independent directors, appointment of at least one independent woman director and time limit for holding annual general meetings would be rolled out in a phased manner with the bigger firms being mandated in the initial phase.

Listed companies would also be required to make enhanced disclosures related to related party transactions and subsidiaries.

For equity derivatives, the regulator has decided to move towards physical settlement for all stock derivatives in a phased manner to “facilitate greater alignment of cash and derivative market.”

SEBI has also amended the eligibility criteria for stocks to be included in the derivatives segment since the last such amendment was done six years ago.

Meanwhile, a framework for ascertaining the exposure limits for investors based on their income tax returns has been approved to ensure that investors do not take undue risks and also miss-selling of products is curbed.

“For exposure beyond the computed exposure, the intermediary would be required to undertake rigorous due diligence and take appropriate documentation from the investor,” SEBI said in a statement.

Co-location services

SEBI also announced steps to strengthen the guidelines for algorithmic trading, including stock exchanges providing tick-by-tick data feed free-of-cost to trading members, tweaking the penalty framework to minimise orders that are way off the mark and enhancing certain disclosure requirements for stock exchanges. Exchanges have also been directed to offer shared co-location services that would reduce the cost for trading members.

Lower cost for MFs

For mutual funds (MFs), the regulator has reduced the cap for expenses charged for each scheme. The maximum limit has been reduced from 20 basis points of the daily net asset value of the schemes to 5 basis points, which would benefit the investors in the form of marginally higher net asset value (NAV) of the scheme.

Among other things, SEBI amended the enforcement framework for non-compliance of the listing regulations. This would allow exchanges to freeze the shareholding of the promoter and promoter group for non-compliance.

SEBI also decided to initiate a public consultation process for a framework for listed companies that are in the midst of insolvency resolution process.

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