

**GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS**

**LOK SABHA
UNSTARRED QUESTION NO. 1250
ANSWERED ON MONDAY, THE 25th NOVEMBER, 2019
AGRAHAYANA 4, 1941 (SAKA)**

REDUCTION IN COMPLIANCE COST

QUESTION

1250. SHRI ARVIND KUMAR SHARMA:

**Will the Minister of CORPORATE AFFAIRS
be pleased to state:**

कार्पोरेट कार्य मंत्री

- (a) whether the Government is considering measures for small private limited companies to reduce their compliance cost for various statutory filings, if so, the details thereof;
- (b) whether the Government extended CARO 2016 (Audits) to private schools and Hospitals especially built on concession land, if so, the details thereof;
- (c) the opinion of the Government regarding creation of conflict of interest situation with the inclusion of ICAI members on the NFRA board; and
- (d) the steps taken by the Government to improve corporate governance especially regarding credit rating agencies and to tame punters and riggers who manipulate stock prices?

ANSWER

**THE MINISTER OF STATE FOR FINANCE
AND CORPORATE AFFAIRS**

(SHRI ANURAG SINGH THAKUR)
(श्री अनुराग सिंह ठाकुर)

वित्त एवं कॉर्पोरेट कार्य मंत्रालय में राज्य मंत्री

- (a):- Ministry of Corporate Affairs (MCA) has been taking various initiatives on continuous basis to provide less stringent regulations including measures with respect to filing requirements for small companies, One Person Companies (OPCs) and start-ups. The changes in this regard are made in the Companies Act, 2013 as well as various Rules and Forms thereunder from time to time.
- (b):- The Companies (Auditor's Report) Order, 2016 (CARO, 2016) has not been extended to private schools and hospitals built on concession land.
- (c):- The opinion of the Government regarding inclusion of Institute of Chartered Accountants of India (ICAI) members on the NFRA (National Financial Reporting Authority) Board is that it would not create conflict of interest situation. As per the National Financial Reporting Authority (Manner of Appointment and other Terms and Conditions of Service of Chairperson and Members) Rules, 2018, NFRA board has 13

members out of which 3 members represent ICAI as per clause (v), (vi) and (vii) of Rule 4(6). The main functions under section 132(2) and (4) will be performed by the executive body of NFRA and as such, no conflict of interest will be there.

(d):- The Securities and Exchange Board of India (SEBI) under the Department of Economic Affairs (Ministry of Finance) has stated on 20.11.2019 that the following recent measures have been taken by SEBI to improve governance standard in rating agencies:-

- i. Credit Rating Agencies (CRA) to segregate the activity other than the rating of financial instruments under the respective guidelines of a financial sector regulator or any authority as may be specified by SEBI.**
- ii. MD/CEO of a CRA shall not be a member of rating committees of the CRA.**
- iii. Rating committees of a CRA shall report to a Chief Ratings Officer (CRO).**
- iv. One third of the board of a CRA shall comprise of independent directors, if the board is chaired by a non-executive director. In case the board of the CRA is chaired by an executive director, half of the board shall comprise of independent directors.**
- v. The board of a CRA shall constitute the following committees:**
 - (i) Ratings Sub-Committee**
 - (ii) Nomination and Remuneration Committee**
- vi. The Chief Ratings Officer (CRO) shall directly report to the Ratings Sub-Committee of the board of the CRA.**
- vii. The Nomination and Remuneration Committee shall be chaired by an independent director.**
- viii. CRAs shall meet the audit committee of the rated entity, at least once in a year, to discuss issues including related party transactions, internal financial control and other material disclosures made by the management, which have a bearing on rating of the listed Non-Convertible Debentures (NCDs).**
- ix. Minimum net worth requirement of CRA increased from existing Rs. 5 Crore to Rs. 25 Crore.**
- x. The promoter of a CRA to maintain a minimum shareholding of 26% in the CRA for a minimum period of 3 years from the date of grant of registration by the Board.**
- xi. A CRA shall not, directly or indirectly, have 10% or more shareholding and/ or voting rights in another CRA and a CRA shall not have representation on the Board of any other CRA.**

In addition, SEBI has stated that the following steps have been taken by SEBI to improve corporate governance of listed entities:-

- 1. Corporate governance norms were introduced through introduction of Clause 49 in the Listing Agreement on February 21, 2000 based on the recommendations of the Kumaramangalam Birla Committee. Subsequently, the clause 49 was revised and strengthened in 2004 based on the recommendations of the Narayana Murthy Committee. In 2015, the listing norms in the entire listing agreement including clause 49 was subsequently streamlined by SEBI in the form of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.**
- 2. SEBI formed a committee on corporate governance in June 2017 under the Chairmanship of Mr. Uday Kotak with a view to enhancing the standards of corporate governance of listed entities in India. The committee submitted its report to SEBI in October 2017.**
- 3. Based on the public comments and discussions with various stakeholders, various actions on the recommendations of Kotak Committee were approved by SEBI Board and accordingly amendments to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 were notified on May 09, 2018.**
- 4. Major reforms arising out of the recommendations of Kotak Committee have been implemented in a phased manner. Some of these reforms are as follows:-**
 - i. At least one woman independent director in the top 500 listed entities by market capitalization by April 1, 2019 and in the top 1000 listed entities, by April 1, 2020,**
 - ii. Separation of CEO/MD and Chairperson (to be initially made applicable to the top 500 listed entities by market capitalization w. e. f. April 1, 2020).**
 - iii. Enhanced disclosure of related party transactions (RPTs) and related parties to be permitted to vote against RPTs.**
 - iv. Reduction in the maximum number of listed entity directorships from 10 to 8 by April 01, 2019 and to 7 by April 1, 2020.**
 - v. Enhanced role of the Audit Committee, Nomination and Remuneration Committee (NRC) and Risk Management Committee.**
 - vi. Disclosures of auditor credentials, audit fee, reasons for resignation of auditors, etc.,**

- vii. Disclosure of expertise/ skills of directors.**
- viii. Mandatory disclosure of consolidated quarterly results with effect from FY 2019-20.**
- ix. Secretarial Audit to be mandatory for listed entities and their material unlisted subsidiaries.**
- x. Minimum six directors in the top 1,000 listed entities by market capitalization by April 1, 2019 and in the top 2000 listed entities, by April 1, 2020.**
- xi. Quorum for Board meetings (1/3rd of the size of the Board or 3 members, whichever is higher) in the top 1000 listed entities by market capitalization by April 1, 2019 and in the top 2000 listed entities, by April 1, 2020.**
- xii. Top 100 entities to hold AGMs within 5 months from the end of FY 2018-19 i.e. by August 31, 2019.**
- xiii. Webcast of AGMs will be compulsory for top 100 entities by market capitalization.**
