

PROFESSIONAL PROGRAMME

SUPPLEMENT FOR

**GOVERNANCE, RISK MANAGEMENT,
COMPLIANCES AND ETHICS**

MODULE 1

PAPER 1

APPLICABLE FOR JUNE 2023 EXAMINATION

Disclaimer: This document has been prepared purely for academic purposes only and it does not necessarily reflect the views of ICSI. Any person wishing to act on the basis of this document should do so only after cross checking with the original source.

Content

S. No.	Lesson Number & Name	Page Number
1	Lesson 2 Legislative Framework of Corporate Governance in India	3
2	Lesson 3 Board Effectiveness	5
3	Lesson 6 Corporate Policies and Disclosures	7
4	Lesson 16 CSR and Sustainability	8

Lesson 2

Legislative Framework of Corporate Governance in India

Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2022

On 14th November 2022, the Securities and Exchange Board of India came out with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2022 in a move towards amending the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Through this amendment, regulation 25(A) which deals with obligations with reference to independent directors has been notified as under:

The appointment, re-appointment or removal of an independent director of a listed entity, shall be subject to the approval of shareholders by way of a special resolution.

“Provided that where a special resolution for the appointment of an independent director fails to get the requisite majority of votes but the votes cast in favour of the resolution exceed the votes cast against the resolution and the votes cast by the public shareholders in favour of the resolution exceed the votes cast against the resolution, then the appointment of such an independent director shall be deemed to have been made under sub-regulation (2A):

Provided further that an independent director appointed under the first proviso shall be removed only if the votes cast in favour of the resolution proposing the removal surpass the votes cast against the resolution and the votes cast by the public shareholders in favour of the resolution exceed the votes cast against the resolution.”

Further, through the mentioned amendment under regulation 52(4), it has been notified that the listed entity, while submitting quarterly and annual financial results, shall disclose the following line items along with the financial results:

- debt-equity ratio;
- debt service coverage ratio;
- interest service coverage ratio;
- outstanding redeemable preference shares (quantity and value);
- capital redemption reserve/debenture redemption reserve;
- net worth;
- net profit after tax;
- earnings per share:

- current ratio;
- long term debt to working capital;
- bad debts to Account receivable ratio;
- current liability ratio, etc.

Provided that if the aforesaid information is not applicable to the listed entity, it shall disclose such other ratio/equivalent financial information, as may be required to be maintained under applicable laws, if any.

Further, the listed entity under regulation 52(7), shall submit to the stock exchange(s), along with the quarterly financial results, a statement indicating the utilisation of the issue proceeds of non-convertible securities, in such format as may be specified by the Securities and Exchange Board of India, till such proceeds of the issue have been fully consumed or the purpose for which the proceeds were raised has been accomplished.

Details of the aforesaid Regulations can be accessed at:
https://www.sebi.gov.in/legal/regulations/nov-2022/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-sixth-amendment-regulations-2022_65048.html

Lesson 3

Board Effectiveness

Independent Director

Companies (Appointment and Qualification of Directors) Second Amendment Rules, 2022

The Ministry of Corporate Affairs (MCA) on 10th June 2022 came out with the Companies (Appointment and Qualification of Directors) Second Amendment Rules, 2022 to amend the Companies (Appointment and Qualification of Directors) Rules, 2014. It is to be noted that in the Companies (Appointment and Qualification of Directors) Rules, 2014, in rule 6, after sub-rule (4), the following sub-rule shall be inserted, namely: -

“(5) Any individual whose name has been removed from the databank under sub-rule (4), may apply for restoration of his name on payment of fees of one thousand rupees and the institute shall allow such restoration subject to the following conditions, namely :-

(i) his name shall be shown in a separate restored category for a period of one year from the date of restoration within which, he shall be required to pass the online proficiency self-assessment test and thereafter his name shall be included in the databank, only, if he passes the said online proficiency self-assessment test and in such case, the fees paid by him at the time of initial registration shall continue to be valid for the period for which the same was initially paid; and

(ii) in case he fails to pass the online proficiency self-assessment test within one year from the date of restoration, his name shall be removed from the data bank and he shall be required to apply afresh under sub-rule (1) for inclusion of his name in the databank.”.

Details of the aforesaid Rules can be accessed at:
<https://www.mca.gov.in/bin/ebook/dms/getdocument?doc=MTE5MTY5MDUx&docCategory=Notifications&type=open>

Lesson 6

Corporate Policies and Disclosures

Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2022

On 24th November, 2022, the Securities and Exchange Board of India came out with the Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2022 to further amend the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, namely:-

I. in regulation 2,

i. in sub-regulation (1),

a. in clause (i), the words “except units of a mutual fund” shall be omitted.

b. in clause (l), after the word and symbol “subscribing,” and before the word “buying” the words and symbol “redeeming, switching,” shall be inserted and after the word and symbol “subscribe,” and before the word “buy”, the words and symbol “redeem, switch,” shall be inserted.

II. in regulation 7A, in clause (d),

i. in sub-clause (iv), the word “and” shall be omitted.

ii. After sub-clause (iv) and before sub-clause (v), the following sub-clause shall be inserted, namely,-

“iv(a) regulations 5A to 5G of these regulations; and”

III. after Chapter II and before Chapter III, the following Chapter shall be inserted, namely,-

“Chapter-IIA: Restrictions on Communication in relation to trading by Insiders in the Units of Mutual Funds.

Details of the aforesaid Regulations can be accessed at:
https://www.sebi.gov.in/legal/regulations/nov-2022/securities-and-exchange-board-of-india-prohibition-of-insider-trading-amendment-regulations-2022_65437.html

Lesson 16

CSR and Sustainability

Altman Z-Score Model

The other dimensions of Altman Z-Score Model are as under:

1. Private Manufacturing Companies

$$\text{Z-Score} = 0.717 \times X1 + 0.847 \times X2 + 3.107 \times X3 + 0.42 \times X4 + 0.998 \times X5$$

2. Private General Non-Manufacturing Services Companies

$$\text{Z-Score} = 6.56 \times X1 + 3.26 \times X2 + 6.72 \times X3 + 1.05 \times X4$$

3. Emerging Market Companies

$$\text{Z-Score} = 3.25 + 6.56 \times X1 + 3.26 \times X2 + 6.72 \times X3 + 1.05 \times X4$$

$X1 = \text{Working Capital} \div \text{Total Assets}$

$X2 = \text{Retained Earnings} \div \text{Total Assets}$

$X3 = \text{EBIT} \div \text{Total Assets}$

$X4 = \text{Market Capitalization} \div \text{Total Liabilities}$

$X5 = \text{Sales} \div \text{Total Assets}$

Amendment to Companies (Corporate Social Responsibility Policy) Rules, September 20, 2022.

On 20th September, 2022 the Central Government came out with Companies (Corporate Social Responsibility Policy) Amendment Rules, 2022 to amend the Companies (Corporate Social Responsibility Policy) Rules, 2014 namely:-

In rule 3-

(i) in sub-rule (1), after the proviso, the following proviso shall be inserted, namely: -

“Provided further that a company having any amount in its Unspent Corporate Social Responsibility Account as per sub-section (6) of section 135 shall constitute a CSR Committee and comply with the provisions contained in sub-sections (2) to (6) of the said section.”;

(ii) sub-rule (2) shall be omitted.

In rule 4-

for sub-rule (1), the following sub-rule shall be substituted, namely: -

‘(1) The Board shall ensure that the CSR activities are undertaken by the company itself or through, -

(a) a company established under section 8 of the Act, or a registered public trust or a registered society, exempted under sub-clauses (iv), (v), (vi) or (via) of clause (23C) of section 10 or registered under section 12A and approved under 80 G of the Income Tax Act, 1961 (43 of 1961), established by the company, either singly or along with any other company; or

(b) a company established under section 8 of the Act or a registered trust or a registered society, established by the Central Government or State Government; or

(c) any entity established under an Act of Parliament or a State legislature; or

(d) a company established under section 8 of the Act, or a registered public trust or a registered society, exempted under sub-clauses (iv), (v), (vi) or (via) of clause (23C) of section 10 or registered under section 12A and approved under 80 G of the Income Tax Act, 1961, and having an established track record of at least three years in undertaking similar activities.

In Rule 8-

in sub-rule (3), in clause (c),-

(i) for the words “five percent”, the words “two per cent.” shall be substituted;

(ii) for the words “whichever is less”, the words “whichever is higher” shall be substituted.

Details of the aforesaid Rules can be accessed at:
<https://www.mca.gov.in/bin/dms/getdocument?mds=1Wt3uUYzV0rGCr2Vxa8ztQ%253D%253D&type=open>

