

SUPPLEMENT

**PROFESSIONAL
PROGRAMME –
NEW SYLLABUS**

**GOVERNANCE, RISK
MANAGEMENT,
COMPLIANCES and
ETHICS
(PAPER - 1)**

**(Relevant for students appearing in December
2020 Examination)**

This supplement is for the subject – **Governance, Risk Management, Compliances and Ethics, Professional Programme**. The students are advised to read their Study Material along with these updates. These academic updates are to facilitate the students to acquaint themselves with the amendments in the relevant law upto **30th June 2020, applicable for December 2020 Examination**. The students are advised to read all the relevant regulatory amendments made and applicable upto 30th June 2020 along with the study material. In the event of any doubt, students may write to the Institute for clarifications at academics@icsi.edu.

The students may also refer to the E-book on Companies Act, 2013 on the MCA website for the updated Companies Act, 2013 and rules made there under. The students are also advised to refer the websites of respective regulators for updated legislative provisions.

Disclaimer

These Academic Updates have 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 these Academic Updates should do so only after cross checking with the original source. This document is released with an understanding that the Institute shall not be responsible for any errors, omissions and/ or discrepancies or actions taken in that behalf.

IMPORTANT UPDATES and ANNOUNCEMENTS

FROM JANUARY 2020 TO JUNE 2020

Lesson 3 – Board Effectiveness

<p>SEBI (LODR)(Amendment) Regulations, 2020 dated 10th Jan, 2020</p>	<p>In SEBI LODR Regulations 17(1B) the number 2020 shall be substituted by 2022 and the regulation 17(1B) will be read as follows:</p> <p>The Regulation 17 [1(b)] With effect from April 1, 2022, the top 500 listed entities shall ensure that the Chairperson of the board of such listed entity shall -</p> <p>(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:</p> <p>Provided that this sub-regulation shall not be applicable to the listed entities which do not have any identifiable promoters as per the shareholding pattern filed with stock exchanges.</p> <p>https://www.sebi.gov.in/legal/regulations/jan-2020/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-amendment-regulations-2020_45649.html</p>
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Lesson 10 – Governance and Compliance Risk

<p>Non-compliance with certain provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the Standard Operating Procedure for suspension and revocation of trading of specified securities. Circular</p>	<p>SEBI has issued circular specifying the uniform structure for imposing fines as a first resort for non-compliance with certain provisions of the Listing Regulations, freezing of entire shareholding of the promoter and promoter group and the standard operating procedure for suspension of trading in case the non-compliance is continuing and/or repetitive. The stock exchange shall with having regard to the interests of investors and the securities market take action in case of non-compliance with the listing regulations and follow the standard operating procedure for suspension and revocation of suspension of trading of specified securities.</p> <p>https://www.sebi.gov.in/legal/circulars/jan-2020/non-compliance-with-certain-provisions-of-the-sebi-listing-obligations-and-disclosure-requirements-regulations-2015-and-the-standard-operating-procedure-for-suspension-and-revocation-of-trading-of-_45752.html</p>
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issued
dated
January
22, 2020

Lesson 1 – Conceptual Framework of Corporate Governance

New
20
20 UK
Stewardship
Code

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

The UK Stewardship Code 2020 is a substantial and ambitious revision to the 2012 edition of the Code which takes effect from 1 January 2020. The UK Stewardship Code 2020 (the Code) sets high stewardship standards for asset owners and asset managers, and for service providers that support them. The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners, and a separate set of Principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

The Code consists of 12 Principles for asset managers and asset owners, and six Principles for service providers.

The code has specified the following principles for asset owners and asset managers:

Purpose and Governance:

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Principle 2

Signatories' governance, resources and incentives support stewardship.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Investment Approach:

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Principle 8

	<p>Signatories monitor and hold to account managers and/or service providers.</p> <p>Engagement:</p> <p>Principle 9</p> <p>Signatories engage with issuers to maintain or enhance the value of assets.</p> <p>Principle 10</p> <p>Signatories, where necessary, participate in collaborative engagement to influence issuers.</p> <p>Principle 11</p> <p>Signatories, where necessary, escalate stewardship activities to influence issuers.</p> <p>Exercising Rights and Responsibilities:</p> <p>Principle 12</p> <p>Signatories actively exercise their rights and responsibilities.</p> <p>PRINCIPLES FOR SERVICE PROVIDERS</p> <p>Principle 1</p> <p>Signatories’ purpose, strategy and culture enable them to promote effective stewardship.</p> <p>Principle 2</p> <p>Signatories’ governance, workforce, resources and incentives enable them to promote effective stewardship.</p> <p>Principle 3</p> <p>Signatories identify and manage conflicts of interest and put the best interests of clients first.</p> <p>Principle 4</p> <p>Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.</p> <p>Principle 5</p> <p>Signatories support clients’ integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.</p> <p>Principle 6</p> <p>Signatories review their policies and assure their processes.</p> <p>https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Dec-19-Final-Corrected.pdf</p>
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Lesson 16 – CSR and Sustainability

<p>Ministry of Corporate Affairs notification dated 26.05.2020</p>	<p>Following activities will also be considered as CSR activities by the companies: Contribution to Prime Minister’s Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund)</p> <p>http://ebook.mca.gov.in/notificationdetail.aspx?acturl=6CoJDC4uKVUR7C9FI4rZdatyDbeJTqg3HE7Xx+PAr2tlprftKCE2ZF9raArVVO+</p>
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<p>Ministry</p>	<p>Following activities will also be considered as CSR activities by the companies:</p>
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of Corporate Affairs notification dated 23.06.2020	Measures for the benefit of Central Armed Police Forces (CAPF) and Central Para Military Forces (CPMF) veterans, and their dependents including widows. http://ebook.mca.gov.in/notificationdetail.aspx?acturl=6CoJDC4uKVUR7C9FI4rZdatyDbeJTgg3ZIZeFjZRpJuw3Z+xpAQ8U3w7tiKBUM6bacpDUHGJ8cmQ6wPSNuE9SA==
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Lesson 6 – Corporate Policies and Disclosures

Ministry of Corporate Affairs notification dated 03.01.2020	<p>As per section 204(1) of Companies Act, 2013 read with rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the following companies are required to obtain Secretarial Audit Report:</p> <ul style="list-style-type: none"> – Every listed company; – Every public company having a paid-up share capital of fifty crore rupees or more; or – Every public company having a turnover of two hundred fifty crore rupees or more; or – Every company having outstanding loans or borrowings from banks or public financial institutions of one hundred crore rupees or more – The format of the Secretarial Audit Report shall be in Form No. MR 3. <p>For the purposes of this sub-rule, it is hereby clarified that the paid-up share capital, turnover, or outstanding loans or borrowings as the case may be, existing on the last date of latest audited financial statement shall be taken into account.</p> <p>http://ebook.mca.gov.in/notificationdetail.aspx?acturl=6CoJDC4uKVUR7C9FI4rZdatyDbeJTgg3Ucuvh+imhFJm3G0mvRJOeA==</p>
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Lesson 2 – Legislative Framework of Corporate Governance in India

Revised Guidelines on Stewardship Code for Insurers in India dated 07.02.2020

Insurance companies are significant institutional investors in listed companies and the investments are held by them as custodians of policyholders' funds. The state of governance of the investee companies is an important aspect and insurance companies must ensure that investee companies maintain corporate governance standards at high level. Therefore, insurance companies should play an active role in the general meetings of investee companies and engage with the managements at a greater level to improve their governance. This will result in informed decisions by the parties and improve the return on investments of insurers which will ultimately benefit the policyholders.

In this regard, the Authority had issued a code for stewardship for the insurance companies vide its circular ref: IRDA/F&A/GDL/CMP/059/03/2017 on 20th March 2017. The code was in the form of a set of principles which the insurance companies needed to adopt and made applicable from FY 2017-18. Guidelines for each principle under the code had also been prescribed by the Authority. As per the code, insurer should have a board approved stewardship policy which should identify and define the stewardship responsibilities that the insurer wishes to undertake and how the policy intends to fulfill the responsibilities to enhance the wealth of its policyholders who are ultimate beneficiaries.

IRDAI decided to review the existing guidelines on stewardship code based on the experience in implementation, compliance by the insurers and the recent developments in this regard. Accordingly, a revised guidance on stewardship code has been prepared and placed herewith as Revised Guidelines on Stewardship Code for Insurers in India.

All the insurers need to review and update their existing stewardship policy based on the Revised Guidelines on Stewardship Code for Insurers in India within 3 months from the date of issue of the same and the updated stewardship policy needs to be approved by the Board of Directors. The updated policy should be disclosed on the website within 30 days of approval by the Board by all insurers, alongside the public disclosures. Any subsequent change / modification to the stewardship policy should be specifically disclosed at the time of updating the policy document on the website.

Principles

S. No.	Principles	Guidance
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1.	<p>Insurers should formulate a policy on the discharge of their stewardship responsibilities and publicly disclose it.</p>	<p>Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration.</p> <p>The policy should clearly define the stewardship responsibilities as identified by the insurer and how it intends to fulfill the same to enhance the wealth of its clients. The policy should disclose how the insurer applies stewardship with the aim of enhancing and protecting the value for the ultimate beneficiary or client.</p> <p>In case some of the activities are outsourced to some external service providers, the policy should provide the responsibilities to be delegated to such service providers and the mechanisms to ensure that the overall stewardship responsibilities are carried out seamlessly.</p>
2.	<p>Insurers should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.</p>	<p>Insurers should put in place, maintain and publicly disclose a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of their client or beneficiary first. The policy should identify scenarios of likely conflict of interest as envisaged by the Board and should also address how matters are handled when the interests of clients or beneficiaries diverge from each other.</p>
3.	<p>Insurers should monitor their investee companies.</p>	<p>Insurers should have mechanisms for regular monitoring of their investee companies in respect of their performance, leadership effectiveness, succession planning, corporate governance, reporting and other parameters they consider important.</p> <p>Insurers may or may not wish to have more participation through nominations on the Board for active involvement with the investee companies. An insurer who may be willing to have nominations on the Board of an investee company should indicate in its stewardship statement the willingness to do so, and the mechanism by which this could be done.</p>
4.	<p>Insurers should have a clear policy on intervention in their investee companies.</p>	<p>Insurers should set out the circumstances in which they will actively intervene and regularly assess the outcomes of doing so. Intervention should be considered regardless of whether an active or passive investment policy is followed. In addition, a low volume of investment is not, in itself, a reason for not intervening. Instances when insurers may want to intervene include, but are not limited to, when they have concerns about the company's strategy, performance, governance, remuneration or approach to risks, including those that may arise from social and environmental matters.</p> <p>The meetings should be held in a confidential manner with the view to resolve the issue constructively. If dissatisfied with the response of the investee company, the insurer may decide to escalate the matter, in accordance with the pre-defined policy.</p>

5.	<p>Insurers should have a clear policy for collaboration with other institutional investors, where required, to preserve the interests of the policyholders (ultimate investors), which should be disclosed.</p>	<p>For issues that require larger engagement with the investee company, insurers may choose to act collectively with other institutional investors in order to safeguard the interests of their investors. For such situations, the insurers should have a policy to guide their actions and extent of engagement.</p>						
6.	<p>Insurers should have a clear policy on voting and disclosure of voting activity.</p>	<p>Insurers should not just blindly support the board of the investee company but, instead, take their own voting decisions to promote the overall growth of the investee companies and, in turn, enhance the value of their investors.</p> <p>The voting policy should be publicly disclosed. The voting decisions taken in respect of all the investee companies should also be disclosed publicly along with the rationale for such decision in Annexure B.</p> <p>Insurers should disclose the use made, if any, of proxy voting or other voting advisory services. They should describe the scope of such services, identify the providers and disclose the extent to which they follow, rely upon or use recommendations made by such services.</p> <p>Insurers should disclose their approach to stock lending and recalling lent stock.</p> <p>Insurers should mandatorily undertake active participation and voting on resolutions/proposals of the investee companies under the following circumstances:</p> <table border="1" data-bbox="592 1283 1442 1615"> <thead> <tr> <th data-bbox="592 1283 1023 1503">Size of the AUM of the Insurer (Rs. In crores)</th> <th data-bbox="1023 1283 1442 1503">compulsory voting required, if the Insurer's holdint of the paid up capital of investee company (in percentage) is</th> </tr> </thead> <tbody> <tr> <td data-bbox="592 1503 1023 1554">Up to 2,50,000</td> <td data-bbox="1023 1503 1442 1554">3% and above</td> </tr> <tr> <td data-bbox="592 1554 1023 1615">Above 2,50,000</td> <td data-bbox="1023 1554 1442 1615">5% and above</td> </tr> </tbody> </table>	Size of the AUM of the Insurer (Rs. In crores)	compulsory voting required, if the Insurer's holdint of the paid up capital of investee company (in percentage) is	Up to 2,50,000	3% and above	Above 2,50,000	5% and above
Size of the AUM of the Insurer (Rs. In crores)	compulsory voting required, if the Insurer's holdint of the paid up capital of investee company (in percentage) is							
Up to 2,50,000	3% and above							
Above 2,50,000	5% and above							
7.	<p>Insurers should report periodically on their stewardship activities.</p>	<p>In addition to the regular fulfilment of their stewardship activities, institutional investors should also provide a periodic report to their ultimate beneficiaries (policyholders) of how they have discharged their responsibilities, in a format which is easy to understand.</p> <p>However, it may be clarified that compliance with the aforesaid principles does not constitute an invitation to manage the affairs of a company or preclude a decision to sell a holding when this is considered in the best interest of clients or beneficiaries.</p>						

All insurers shall comply with all the principles given in the guidelines and submit an Annual Certificate of Compliance approved by the Board to the Authority as per Annexure B duly certified by CEO and compliance Officer on or before 30th June every year.

Annexure A

Disclosure of voting activities in general meetings of investee companies in which the insurers have actively participated and voted:

Name of the Insurer: _____

Period of Reporting: _____

Meeting Date	Investee Company Name	Type of Meeting (AGM / EGM)	Proposal of Management/ Shareholders	Description of the proposal	Management Recommendation	Vote (For / Against / Abstain)	Reason supporting the vote decision

Place: _____ Signature of Compliance Officer

Date: _____ Name: _____
https://www.irdai.gov.in/ADMINCMS/cms/whatsNew_Layout.aspx?page=PageNo4045&flag=1

Annexure B

Annual Certificate of Compliance with regard to status of Stewardship Code principles

Name of the Insurer: _____
 Period of Report (FY): _____

Date: _____

We hereby certify that the guidelines given on Stewardship Code for Insurers in India by Insurance Regulatory and Development Authority of India are duly followed and all the principles detailed in the guidelines are duly complied with.

Compliance Officer
 (Name and Signature)

Chief Executive Officer
 (Name and Signature)