ICGN
International Corporate Governance Network

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Dear Mr. Dangeti,

Subject: Strengthening India's Listing Rules from a Governance Perspective

Thank you for taking the time to meet with me and some of our ICGN members recently. As we discussed, the International Corporate Governance Network (ICGN) welcomes the opportunity to provide input to SEBI's review of the listing rules.

Led by investors responsible for assets under management of >US$90 trillion, ICGN is an authority on global standards of corporate governance and investor stewardship. Headquartered in London, our membership is based in more than 40 countries. ICGN's *Global Governance Principles* and *Global Stewardship Principles*, written from an investor perspective, are widely used by our members in their company assessments and voting decisions, and by regulators when developing corporate governance rules.

The following priorities are informed by the views expressed by ICGN members in ensuring listing rules in India serve the interests of long-term value creation and attracting capital from global institutional investors. In making these recommendations, ICGN recognises the distinctive features of the Indian market, including the breadth of its listed company universe, the mandatory nature of SEBI's regulatory framework, and the governance dynamics arising from concentrated promoter ownership structures. We have sought to draw on precedents from across Asia as well as other major markets, reflecting the convergence of governance standards across the region. Where appropriate, we have indicated where phased implementation or proportionate application to the largest companies may be warranted.

A. Shareholder rights and voting

1. Unbundling of resolutions

- **The issue:** Reappointment and remuneration are frequently combined into a single resolution, preventing shareholders from distinguishing between confidence in the individual and views on the structure and quantum of pay. This can force shareholders to vote against a director they otherwise support, or to support a pay outcome they do not endorse.
- **Recommendation:** Require that director reappointment and director remuneration be put to separate shareholder votes. This would improve shareholder choice and accountability without imposing a material compliance burden on companies.
- **International precedent:** In Japan, the Companies Act (Act No. 86 of 2005) requires separate shareholder approval for director appointment (Article 329) and remuneration (Article 361), ensuring that each decision is assessed independently.[1]

[1] Companies Act Japan, Articles 329 (1), 361 (1), 2005

In the UK, the Companies Act 2006, s.160(1) requires separate resolutions for each director appointment.[2] In Australia, the Corporations Act 2001, s.250R(2) requires a separate advisory vote on the remuneration report, with the "two-strikes" rule (ss.250U–250V) triggering a board spill if 25% or more vote against remuneration in two consecutive years.[3] [4] [5]

2. Post-vote disclosure where significant dissent exists

- **The issue:** India has no mandatory requirement for companies to explain how they will respond when a substantial minority votes against a board recommendation. ICGN's NIFTY 50 data shows that average promoter holding in the index is 42.75% and 36 of 50 companies have a promoter or promoter-related chair, meaning resolutions will typically pass regardless of minority dissent.
- **Recommendation:** Require companies to publish a statement when 20% or more of votes cast are against a board-recommended resolution, explaining what actions the company intends to take to consult shareholders and address the concerns. In addition, given the extent to which promoter holdings can overwhelm minority dissent in controlled companies, SEBI should introduce a separate trigger requiring a company statement where 50% or more of votes cast by public (non-promoter) shareholders are against a board-recommended resolution. Assessing dissent on a non-promoter basis is a defining feature for markets with concentrated ownership structures, and would give SEBI a more accurate measure of genuine shareholder sentiment.
- **International precedent:** The UK Corporate Governance Code 2024, Provision 4 provides that when 20% or more of votes are cast against the board recommendation for a resolution, the company should explain what actions it intends to take to consult shareholders.[6] An update on views received and actions taken must be published no later than six months after the meeting, with a final summary in the annual report. This is a comply-or-explain provision, making it a proportionate model for India.

3. Shareholder proposal filing thresholds

- **The issue:** India's 10% threshold for tabling a resolution or requisitioning a meeting is the highest among major APAC markets. Given that promoter holdings average over 50%, this threshold is effectively prohibitive. Even a large institutional investor holding 2-3% of a company has no mechanism to raise a governance concern at the AGM when private engagement has been unsuccessful.
- **Recommendation:** Reduce the shareholding threshold required to table a resolution or requisition a meeting to between 1% and 3%, aligning India with peer markets across Asia.
- **International precedent:** In Japan, the Companies Act (Article 303) permits shareholders who have held at least 1% of voting rights or 300 voting rights for six months to submit a shareholder proposal;[7] in South Korea, the Commercial Act Article 542-6, permits shareholder proposals 1.0% for listed companies and 0.5% for certain large listed companies;[8] in China, the current Company Law (Article 115) permits shareholders holding individually or collectively 1% or more to submit an

[2] UK Companies Act, Section 160, 2006
[3] Australia Corporations Act, Section 250, 2001
[4] Australia Corporations Act, Section 250U, 2001
[5] Australia Corporations Act, Section 250V, 2001
[6] Financial Reporting Council, UK Corporate Governance Code, 2024
[7] Companies Act Japan, Article 303 (1), 2005
[8] South Korea Commercial Act, Article 542-6, 2009

interim proposal;[9] and in Hong Kong, the Companies Ordinance (s.615) requires only 2.5% of voting rights or 50 members to request circulation of a resolution for an AGM.[10]

B. Board effectiveness and independence

4. Overboarding limits

- **The issue:** India currently permits a person to hold directorships in up to 7 listed entities under SEBI LODR,[11] while the Companies Act separately caps total directorships at 20 companies overall, including a maximum of 10 public companies.[12]
- **Recommendation:** Reduce the maximum number of listed company directorships. ICGN's Global Governance Principles (Principle 1.6) states that *board appointments an individual director holds should be carefully considered and reviewed on a regular basis and the degree to which each individual director has the capacity to undertake multiple directorships should be clearly disclosed*.
- **International precedent:** Major institutional investor voting policies typically flag directors holding more than 4-5 public company board seats as overboarded. The UK Corporate Governance Code 2024 Guidance emphasises that boards should consider whether individual time commitments are sufficient for effective service.[13] ICGN's GGPs state, *normally, an individual director should not hold more than three directorships of any sort, and this should be substantially less for executive directors, as well as for the board chair and committee chairs*.

5. Lead Independent Director

- **The issue:** India does not currently have a formal concept of a lead independent director. Where a single individual holds both the chair and CEO roles, or where the chair is a promoter or related to the promoter (which ICGN's NIFTY 50 data shows applies to 36 of 50 companies), there is no designated independent voice at the head of the board. This can limit objective oversight, constructive challenge of management, and effective handling of conflicts of interest.
- **Recommendation:** Introduce a requirement through the listing rules for companies where the chair is an executive or is related to the promoter to appoint a lead independent director. This person would serve as a point of contact for shareholders, support independent directors in their oversight role, and chair discussions where the chair has a conflict of interest. This would not require structural changes to existing board arrangements. It would simply ensure a clearly identified, independent voice accountable to all shareholders.
- **International precedent:** The Singapore Code of Corporate Governance, Provision 3.3 provides that every company should appoint an independent director to be the lead independent director where the chairman is not independent.[14] In Italy, where listed companies have similar controlling-shareholder structures, the Corporate Governance Code requires the appointment of a lead independent director where the chair and CEO roles are combined or the Chair is a controlling shareholder.[15] The UK

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[9] China Company Law, Article 115, 2023
[10] Hong Kong Companies Ordinance, Section 615, 2025
[11] SEBI, LODR Regulation 17A, 2015
[12] India Companies Act, Section 165, 2013
[13] Financial Reporting Council, Corporate Governance Code Guidance, 2024
[14] Singapore Stock Exchange, Code of Corporate Governance, 2023
[15] Borsa Italiana, Corporate Governance Code (Article 3, Recommendation 13), 2020

Corporate Governance Code 2024, Provision 12 requires a senior independent director.[16]

6. Non-executive director tenure

- **The issue:** The tenure limit for independent directors under the Companies Act applies at the individual company level. There is no equivalent restriction preventing a director who has completed the maximum tenure at one group entity from being immediately appointed as independent at another entity within the same group. This creates a structural gap in which long-standing relationships with the controlling shareholder are not reflected in the independence assessment.
- **Recommendation:** Require that service as an independent director across listed entities within the same promoter group be counted cumulatively for the purposes of the tenure limit.
- **International precedent:** In Singapore, independence is assessed by reference to the company, its related corporations and substantial shareholders.[17] In Italy, boards assess independence by reference to links with subsidiaries, the parent company and controlling shareholders, and service beyond nine of the last twelve years is treated as a factor that may impair independence.[18]

7. Audit committee independence in practice

- **The issue:** While management are not members of the audit committee, their routine attendance by invitation to audit committee meeting can inhibit free discussion among independent members.
- **Recommendation:** Require that audit committees hold regular executive sessions without management present. SEBI could also clarify that this is a standing expectation, not discretionary guidance, and that routine management attendance should be limited to agenda items where management input is specifically needed.
- **International precedent:** In the US, NYSE Section 303A.07(b)(iii)(E) requires the audit committee to meet separately, periodically, with the independent auditors, management, and internal auditors.[19] The Sarbanes-Oxley Act of 2002, s.301 requires audit committees composed entirely of independent directors.[20] In the UK, the Corporate Governance Code 2024 Guidance (para 121) recommends that audit committees meet the external and internal auditors without management present at least once a year.[21]

C. Managing conflicts in controlled companies

8. Promoter self-voting on pay resolutions

- **The issue:** Promoters and promoter group members can currently vote on compensation resolutions that directly benefit them or their family members. An IiAS study (2025) found that excluding conflicted promoter votes would have caused 24.5% of promoter pay resolutions to fail.[22] ICGN's NIFTY 50 analysis finds that 15

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[16] Financial Reporting Council, UK Corporate Governance Code, 2024
[17] Singapore Stock Exchange, Code of Corporate Governance, 2023
[18] Borsa Italiana, Corporate Governance Code (Recommendation 7), 2020
[19] New York Stock Exchange, Listed Company Manual, 2021
[20] PCAOB, Sarbanes-Oxley Act, 2002
[21] Financial Reporting Council, UK Corporate Governance Code Guidance, 2024
[22] IiAS, Promoters disregard investor dissent while voting their own salary, 2025

companies have promoter shareholdings above 55%, making promoter self-voting on pay mathematically decisive.

- **Recommendation:** Require promoter/promoter group shareholders to abstain from voting on resolutions approving their own compensation. SEBI LODR already requires promoter abstention on certain RPT resolutions, so the mechanism exists. This could be approached as a majority-of-the-minority safeguard in substance, reflecting the self-dealing nature of such resolutions in controlled companies.

9. RPT royalty carve-out

- **The issue:** Royalty payments to related parties remain excluded from RPT regulations. SEBI's own 2024 study found that 1 in 4 listed companies paid more than 20% of net profits as royalties to related parties, and 1 in 2 paid more in royalties than in dividends to minority shareholders.[23]
- **Recommendation:** At minimum, require enhanced disclosure of royalty payments as a percentage of net profits, with mandatory minority shareholder approval (excluding the related party) above a specified threshold.
- **International precedent:** In Singapore, the SGX Listing Manual, Chapter 9 treats all interested person transactions, including royalties and brand/IP fees, as related party transactions subject to disclosure and independent shareholder approval above specified thresholds.[24] In Hong Kong, the HKEX Listing Rules, Chapter 14A classify ongoing royalty/licensing arrangements with connected persons as continuing connected transactions, requiring annual review, disclosure, and independent shareholder approval if above de minimis thresholds.[25]

D. Stewardship engagement

10. PIT safe harbour for stewardship engagement

- **The issue:** ICGN has noted sentiment in the market that the Prohibition of Insider Trading (PIT) regulations can hinder stewardship engagement with directors. The rules are substantively similar to those in the EU, Australia, and Singapore, yet those jurisdictions have developed stewardship cultures without the same effect on engagement between issuers and shareholders.
- **Recommendation:** Create a formal safe harbour within SEBI (Prohibition of Insider Trading) Regulations 2015 for bona fide stewardship engagement on non-Unpublished Price Sensitive Information (UPSI) topics, including succession planning, board effectiveness, long-term strategy, and ESG oversight. SEBI is well-placed to address this by issuing a clarificatory circular setting out when and how independent directors can engage with institutional shareholders without breaching insider trading rules. Complementary training guidance for independent directors would help put this into practice. This would help normalise routine access to independent directors on governance matters while preserving clear boundaries around UPSI. Engagement requirements could be phased in, starting with top 200 companies in the listed universe, where boards are better positioned and have the resources to invest in director training.
- **International precedent:** In Japan, the Stewardship Code (revised 2020, Principle 4) encourages constructive dialogue with investee companies,[26] and the Tokyo Stock

[23] SEBI, Study on Royalty Payments, 2024
[24] Singapore Exchange, Catalyst Rules Chapter 9, 2020
[25] Hong Kong Exchange, Listing Rules Chapter 14, 2021
[26] Financial Services Agency, Stewardship Code, 2020

Exchange's Corporate Governance Code (Principle 5) requires boards to facilitate constructive engagement with shareholders.[27] In the UK, the FCA's Market Abuse Regulation (UK MAR) framework includes provisions for "market soundings" (Art. 11) and "wall-crossing" procedures that allow structured engagement involving inside information with appropriate controls.[28] The UK Stewardship Code 2026[29] explicitly expects signatories to engage with issuers on material matters.

E. Enforcement and implementation

11. Strengthening the enforcement floor

- **The issue:** ICGN has noted that BSE/NSE fines for BRSR non-compliance are as low as ₹10,000-20,000.
- **Recommendation:** Review whether the current penalty framework is calibrated to drive behavioural change, particularly for large-cap companies where current amounts are immaterial. Graduated penalties linked to market capitalisation would be more proportionate.
- **International precedent:** In the UK, the FCA's Decision Procedure and Penalties Manual (DEPP) sets financial penalties using a five-step framework that considers the firm's revenue, the seriousness of the breach, mitigating and aggravating factors, deterrence, and settlement discount.[30] In the US, the SEC's penalty framework under the Securities Act of 1933[31] and Exchange Act of 1934[32] allows penalties up to the greater of a fixed statutory amount or the gross amount of pecuniary gain.[33]

Thank you again for the opportunity to share our perspective. If you would like to follow up with questions or comments, please contact Ayan Tewari, Senior Policy Executive (policy@icgn.org).

Yours faithfully,

Jen Sisson

Jen Sisson

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[27] Tokyo Stock Exchange, Corporate Governance Code, 2021
[28] Financial Conduct Authority, Market Abuse Regulations, 2014
[29] Financial Reporting Council, Stewardship Code, 2026
[30] Financial Conduct Authority, Decision Procedure and Penalties Manual, 2026
[31] US Government, Securities Act, 1933
[32] US Government, Exchange Act, 1934
[33] SEC, Adjustment to Civil Monetary Penalty Amount, 2025