

## SEBI Consultation paper - Secretarial compliance report, appointment of auditors and RPT

Pursuant to the recommendations of the Advisory Committee on Listing Obligations and Disclosures ('ACLOD') and subsequent internal discussions, the Securities and Exchange Board of India ('SEBI') has issued a consultation paper to seek public comments for the proposed amendments in SEBI (Listing Obligations and Disclosure Requirements) Regulations ('LODR Regulations'). These, if implemented are believed to bring in accountability, enhanced disclosures to the stakeholders and a confirmation of compliance with the securities laws.

### 1. Strengthening the secretarial compliance report of a listed entity:

- Regulation 24A(2) of the LODR Regulations requires every listed entity to submit a secretarial compliance report to Stock Exchanges within 60 days from the end of each financial year. Given the regulatory developments in the last 2 years, the format needs to include a specific confirmation on the listed entity's compliance (including the identification of non-compliances, if any) with substantial provisions of securities laws.
- To achieve this, the present format of the Annual Secretarial Compliance Report ('ASCR') is proposed to be revised to obtain explicit confirmation from the practising company secretary ('PCS') on compliance with specific provisions of securities laws.

### 2. Specifying eligibility criteria for appointment of statutory auditor of a listed entity

- The Companies (Audit and Auditors) Rules, 2014 require that the audit committee / board of directors should consider that the qualifications and experience of the auditor are commensurate with the size and requirements of the company.
- Similar provisions regarding the size, qualification or experience of the statutory auditor, presently do not exist in the LODR Regulations.
- It is proposed to insert a similar provision in the LODR Regulations that would enable monitoring and enforcement of such requirements by SEBI and stock exchanges, thereby enhancing stakeholder confidence in the financials of the listed entity.
- Further, the audit committee ('AC') may also be required to consider whether the qualifications and years of experience of the signing partner(s) of the firm appointed as 'statutory auditor' are commensurate with the size and requirements of the listed entity.
- Accordingly, Schedule II, Part C of the LODR Regulations: 'Role of the Audit Committee and Review of information by Audit Committee' is proposed to be changed.

### 3. Enhancing disclosures to shareholders, BOD and AC at the time of appointment/re-appointment of statutory and secretarial auditors

The present LODR Regulations require certain disclosures in the notice of the annual general meeting ('AGM') where the statutory auditors/secretarial auditors are proposed to be appointed or re-appointed. It was felt necessary to have a standardised format of disclosures to shareholders and disclosures of certain minimum information to the AC/BOD at the time of considering appointment / re-appointment of statutory auditor and secretarial auditor. Hence, it is proposed to have the following information (included in Annexure 4 to the consultation paper)

- Basic details of the statutory/secretarial auditors.
- Experience and past associations.

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- Compliance-related information: i.e. whether the firm/auditor holds a peer-review certificate, orders/pending proceedings against the auditors, etc.
- Fee-related information: total fees of the outgoing auditor, proposed fees of the auditor, rationale for material change in the audit fees of the proposed statutory/secretarial auditor.
- Information to be disclosed to the shareholders.

### 4. Facilitating ease of implementation with respect to approval of RPTs undertaken by subsidiaries of a listed entity

To ease the implementation of the approval process of related party transactions ('RPTs'), where the subsidiary of the listed entity ('LE') is a party to the transaction (but not the LE itself), it is proposed to bring a monetary threshold in addition to the percentage threshold.

Thus, if the below-mentioned thresholds are met, the approval of the listed entity's audit committee will be required.

#### For subsidiaries having a financial track record:

- Subsidiaries of listed entities on the Main Board: Lower of INR 1,000 crore or 10% of the annual standalone turnover of the subsidiary.
- Subsidiaries of SME listed entities: Lower of INR 50 crore or 10% of the annual standalone turnover of the subsidiary.

#### For subsidiaries not having a financial track record (i.e. those not having financials of at least one year):

- Subsidiaries of listed entities on the Main Board: Lower of INR 1000 crore or 10% of the standalone net worth of the subsidiary, as certified by a practising chartered accountant not more than 3 months prior to the date of seeking approval.
- Subsidiaries of SME listed entities: Lower of INR 50 crore or 10% of the standalone net worth of the subsidiary, as certified by a practising chartered accountant not more than 3 months prior to the date of seeking approval.

## Weblink

[https://www.sebi.gov.in/reports-and-statistics/reports/feb-2025/consultation-paper-on-aspects-relating-to-secretarial-compliance-report-appointment-of-auditors-and-related-party-transactions-of-a-listed-entity\\_91740.html](https://www.sebi.gov.in/reports-and-statistics/reports/feb-2025/consultation-paper-on-aspects-relating-to-secretarial-compliance-report-appointment-of-auditors-and-related-party-transactions-of-a-listed-entity_91740.html)

## Therefore

This move of SEBI will help in enhancing the disclosure requirements and specifying standardised formats in collecting and disseminating information, wherever necessary. It also aims to equally weigh the role of statutory auditors and secretarial compliance auditors by introducing parallel requirements as to their identity, eligibility and rationale behind their appointments/re-appointments.

The proposed amendments are open for public comments till 28 February 2025.