

Deputy General Manager

Market Regulation Department

Email: sundaresanvs@sebi.gov.in

Tel: 2284 5355 Fax: 2284 5761

SEBI/MRD/SE/31/2003/26/08

August 26, 2003

The Executive Directors/Managing Director/Administrators

Of All the Stock Exchanges

Dear Sir/Madam,

Sub: Corporate Governance in listed Companies – Clause 49 of the Listing Agreement

1. SEBI, vide its circular dated February 21, 2000, specified principles of corporate governance and introduced a new clause 49 in the Listing agreement of the Stock Exchanges. These principles of corporate governance were made applicable in a phased manner and all the listed companies with the paid up capital of Rs 3 crores and above or net worth of Rs 25 crores or more at any time in the history of the company, were covered as of March 31, 2003. SEBI has issued six circulars on the subject of corporate governance inter-alia detailing provisions of corporate governance, its applicability, reporting requirements etc. which are as follows—

Sr. no.	Reference no.	Subject	Date

1	SMDRP/POLICY/CIR-10/2000	Clause 49	February 21,2000
2	SMDRP/POLICY/CIR-13/2000	Applicability of Clause 49	March 09, 2000
3	SMDRP/POLICY/CIR-42/2000	Amendments to Clause 49	September12, 2000
4.	SMDRP/POLICY/ CIR- 03/01	Enforcement of Corporate Governance	January 22, 2001
5.	SMDRP/POLICY/ CIR- 19/01	Applicability of Clause 49	March 16,2001
6.	SMDRP/POLICY/ CIR- 53/01	Amendments to Clause 49	December 31,2001

1. In its constant endeavor to improve the standards of corporate governance in India in line with needs of a dynamic market, SEBI constituted a Committee on Corporate Governance under the Chairmanship of Shri N. R. Narayana Murthy. SEBI, based on the recommendations of the Committee and public comments received on the report, has approved certain amendments in the clause 49 of the Listing Agreement.
2. Accordingly, in exercise of powers conferred by section 11 (1) of the Securities and Exchange Board of India Act, 1992 read with section 10 of the Securities Contracts (Regulation) Act 1956, SEBI has revised the clause 49 of the Listing agreement. The revised clause 49 contains both, the sub clauses of existing clause 49 as well as new sub-clauses. **All Stock Exchanges are hereby directed to immediately replace the existing Clause 49 of the listing agreement (issued vide circular dated February 21, 2000, September 12, 2000, March 16, 2001 and 31 December 2001) by the revised Clause 49 given in Annexure I.** The revised clause 49 also specifies the reporting requirements for the company.
3. Please note that some of the sub-clauses of the revised clause 49 (given in Annexure I) shall be suitably modified or new clauses shall be added following the amendments to the Companies Act 1956 by the Companies (Amendment) Bill/Act 2003, so that the relevant provisions of the clauses on Corporate governance in the Listing Agreement and the Companies Act remain harmonious with one another.
4. The provisions of the revised clause 49 shall be implemented as per the schedule of implementation given below:
5.
 - a. By all entities seeking listing for the first time, at the time of listing.

b) By all companies which were required to comply with the requirement of the clause 49 which is proposed to be revised i.e. all listed entities having a paid up share capital of Rs 3 crores and above or net worth of Rs 25 crores or more at any time in the history of the company. **The companies shall be required to comply with the requirement of the clause on or before March 31, 2004.**

1. The revised clause 49 shall apply to all the listed companies, in accordance with the schedule of implementation given in the revised clause 49. However for other listed entities, which are not companies, but body corporates (e.g. private and public sector banks, financial institutions, insurance companies etc.) incorporated under other statutes, the revised clause will apply to the extent that it does not violate their respective statutes, and guidelines or directives issued by the relevant regulatory authorities. The revised clause is not applicable to the Mutual Fund Schemes.
2. The companies which are required to comply with the requirements of the revised clause 49 shall submit a quarterly compliance report to the stock exchanges as per sub clause (IX) (ii), of the revised clause 49, within 15 days from the **quarter ending 31st March 2004**. The report shall be submitted either by the Compliance Officer or the Chief Executive Officer of the company after obtaining due approvals.
3. The Stock Exchanges shall ensure that all provisions of corporate governance have been complied with by the company seeking listing for the first time, before granting any new listing. For this purpose, it will be satisfactory compliance if these companies have set up the Boards and constituted committees such as Audit Committee, shareholders/ investors grievances committee etc before seeking listing. A reasonable time to comply with these conditions may be granted only where the Stock Exchange is satisfied that genuine legal issues exists which will delay such compliance. In such cases while granting listing, the stock exchanges shall obtain a suitable undertaking from the company. In case of the company failing to comply with this requirement without any genuine reason, the application money shall be kept in an escrow account till the conditions are complied with.
4. The Stock Exchanges shall set up a separate monitoring cell with identified personnel to monitor the compliance with the provisions of the corporate governance. This cell shall obtain the quarterly compliance report from the companies which are required to comply with the requirements of corporate governance and shall submit a consolidated compliance report to SEBI within 30 days of the end of each quarter.
5. Please note that this is a master circular which contains the revised clause 49 as well as other circulars issued by SEBI on the subject, suitably modified. The companies are required to comply with the provisions of revised clause 49, on or before March 31, 2004. The companies shall continue to comply with all the provisions of clause 49(issued vide circulars dated, 21st February, 2000, 12th September 2000, 16th March 2001 and 31st December 2001) as well as other circulars dated, 9th March 2000 and 22nd January, 2001, till the revised clause 49 of the Listing Agreement is complied with or March 31st 2004, whichever is earlier.

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Yours faithfully

Sd/-

V S SUNDARESAN

Encl: Annexure [I](#) [1A](#) [1B](#) [1C](#)