



## Securities and Exchange Board Of India (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021

Complying with revised risk management committee requirements for Listed Entities

June 2021

# Securities Exchange Board of India (SEBI), Listing Obligations Disclosure Requirements (LODR) (Second Amendment) Regulations, 2021

Multiplicity and interconnectivity of risks has given rise to a persistent and disruptive volatility in business operations. Given the integrated nature of operations in a globalised era, risks faced by organisations are intertwined, regardless of their location or source.

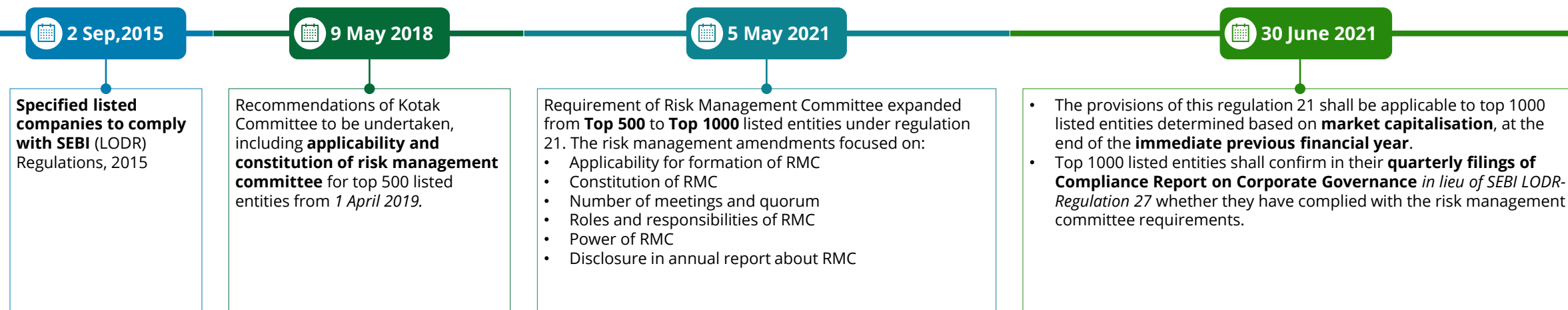
Uncertainties arising from recent developments, especially events like the COVID-19 pandemic, has aggravated the level of risk exposure to organisations. Governments and regulatory bodies across the world have responded to this challenge by reinforcing risk management as a critical paradigm of corporate governance.

Market regulator SEBI has published the SEBI (LODR) (second amendments) vide notification No. **SEBI/LAD-NRO/GN/2021/22** on **5 May 2021**. With the introduction of key amendments in SEBI (LODR) regulations, the regulator has emphasised the need of holistic risk management to improve corporate governance standards of listed companies in India.








In this document, we explore these key amendments for risk management and what actions are required by listed entities to comply with the revised SEBI (LODR) 2021.

Below is the summarised timeline of the amendments in SEBI (LODR) since it was passed in the year 2015.

## Timeline of amendment in SEBI (LODR) Regulations in reference to risk management











# Key changes for Risk Management Committee (RMC) under Regulation 21, SEBI LODR Amendment (2021)

 Amendments	 Existing provisions applicable till 4 May 2021	 New Provisions applicable from 5 May 2021	 LODR Reference
 <b>Applicability for formation of RMC</b>	<p>The provision of SEBI LODR regulation 21 is applicable for <b>Top 500</b> listed entities.</p>	<p>The provision of SEBI LODR regulation 21 is applicable for <b>Top 1000</b> listed entities.</p>	<p><b>Regulation 21, (5)</b></p>
 <b>Constitution of RMC</b>	<p>A majority of members of the RMC shall comprise members of the board of directors of the listed company. The chairperson of the RMC shall be a member of the board of directors, while senior executives of the listed entity may be members of the committee. In case of a listed entity having outstanding SR equity shares, at least two-thirds of the RMC shall comprise independent directors.*</p>	<p>In addition to its existing requirements for RMC Composition:</p> <ul style="list-style-type: none"> <li>The RMC shall have a <b>minimum of three members</b> with a majority of them being members of the board of directors; and</li> <li>The composition of RMC shall include at least <b>one independent director</b>.</li> </ul>	<p><b>Regulation 21, (2)</b></p>
 <b>Number of meetings and quorum</b>	<ul style="list-style-type: none"> <li>The RMC to meet <b>once a year</b>.</li> <li>Quorum <b>not specified</b> in previous provisions</li> </ul>	<ul style="list-style-type: none"> <li>The RMC shall meet <b>at least twice</b> in a year.</li> <li>The quorum shall be either <b>two members or one-third</b> of the committee members, whichever is higher, including at least one member of the board of directors in attendance</li> </ul>	<p><b>Regulation 21, (3A) &amp; (3B)</b></p>

\*Provisions still applicable post 4 May 2021

# Key changes for Risk Management Committee (RMC) under Regulation 21, SEBI LODR Amendment (2021)

	 Amendments	 Existing provisions applicable till 4 May 2021	 New Provisions applicable from 5 May 2021	 LODR Reference
 <b>Maximum gap between meetings</b>		<b>No such provision</b> in existing regulations	The meetings of the RMC shall be conducted in such a manner that on a continuous basis, <b>not more than 180 days</b> shall elapse between any two consecutive meetings.	<b>Regulation 21, (3C)</b>
 <b>Roles and responsibilities of RMC</b>		The board of directors shall define the role and responsibility of the RMC and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit (such function shall specifically cover cybersecurity)*.	In addition to its existing responsibilities, the RMC shall also have enhanced roles and responsibilities which are mandatory, including performance of functions specified in <b>Part D of Schedule II</b> . <i>(Explained on page no 5)</i>	<b>Regulation 21, (4)</b>
 <b>Powers of RMC to seek information</b>		<b>No such provision</b> in existing regulations.	RMC has <b>powers</b> to seek information from any employee, obtain outside legal or other professional advice, and secure attendance of outsiders with relevant expertise, if required.	<b>Regulation 21, (6)</b>
 <b>Disclosure in annual report about RMC</b>		<b>No such provision</b> in existing regulations.	<b>Listed companies</b> to disclose the following <b>about RMC</b> in the annual report: a. Brief description of terms of reference b. Composition, name of members and chairperson c. Meetings and attendance during the year	<b>Schedule V, Para C, 5A</b>

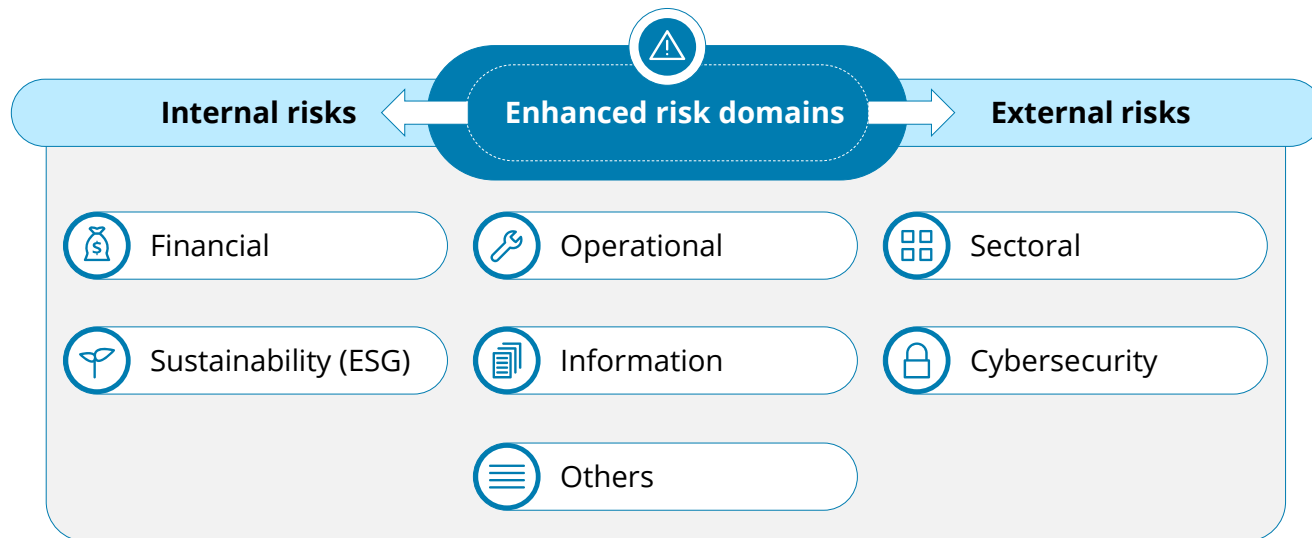
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# Roles and responsibilities of Risk Management Committee (RMC) under Part-D of Schedule II of SEBI (LODR)

1

Formulate a detailed **Risk Management policy**, which would include:

- Measures for risk mitigation, including systems/processes for internal control of identified risks
- A Business Continuity Plan
- **A framework for identification** of internal and external risks faced by listed entities, including financial, operational, sectoral, sustainability (particularly Environment Sustainability and Governance - ESG -related risks), information, cybersecurity risks and any **other risk determined by the RMC**.



2

Ensure that appropriate methodology, processes, and systems are in place to **monitor and evaluate** risks associated with business of the company.

3

**Monitor and oversee implementation** of the risk management policy, including evaluation of the adequacy of risk management systems.

4

Periodically **review** the policy, at least once in **two** years, considering the changing industry dynamics and evolving complexity.

5

Keep the **board of directors informed** about the nature and content of RMC discussions and recommendations, as well as the actions to be taken.

6

Review the process of appointment, removal and terms of remuneration of **Chief Risk Officer (CRO)**, if any.

# Key actionable for top 1000 listed companies to comply with SEBI (LODR) amendment

Listed companies to whom the regulations are applicable should evaluate the risk management capabilities through a Risk Diagnostic to assess areas of weakness and improvement in current risk management practices. Such listed companies should also consider implementing the activities below as recommended in the regulations:

## 01 Constitution of Risk Management Committee (RMC)

- RMC to be constituted by the listed entities for which the regulations are applicable for the first time and re-constituted by other listed entities if the committee members are not as per the requirements below:
  - The committee should have a minimum of **three** members, with a majority of them being members of the board of directors
  - The committee should have at least **one independent director**
  - Listed entities with outstanding **SR equity shares** should have **two-third members as independent directors** in the committee

## 02 Terms of reference of the RMC

- Develop a **terms of reference for the RMC**, which would include purpose, powers, members and mandate of the committee
- Clearly articulate roles and responsibilities of the committee to include the roles defined in **Part-D- Schedule II; (Explained on page no 4)**
- The committee should meet at least **twice a year** and the gap between **two consecutive meetings** should not be more than **180 days**
- Define the quorum for the committee meetings which shall be either **two members or one third** of the committee members, whichever is higher, including at least one member of the board of directors in attendance

## 03 Risk management policy

- Develop an **Enterprise Risk Management policy** for the organisation
- **Monitor and oversee implementation** of the risk management policy and evaluate the adequacy of risk management systems
- Review the risk management policy at least **once in two years**

## 04 Risk management framework

- Develop a robust risk management framework for **identification, assessment and mitigation and monitoring** of internal and external risks.
- Expand the **risk domain coverage** in the risk registers to include financial, operational, sectoral, sustainability, environment, social and governance, information, cybersecurity and other risks relevant from an industry perspective

## 05 Business Continuity Plan

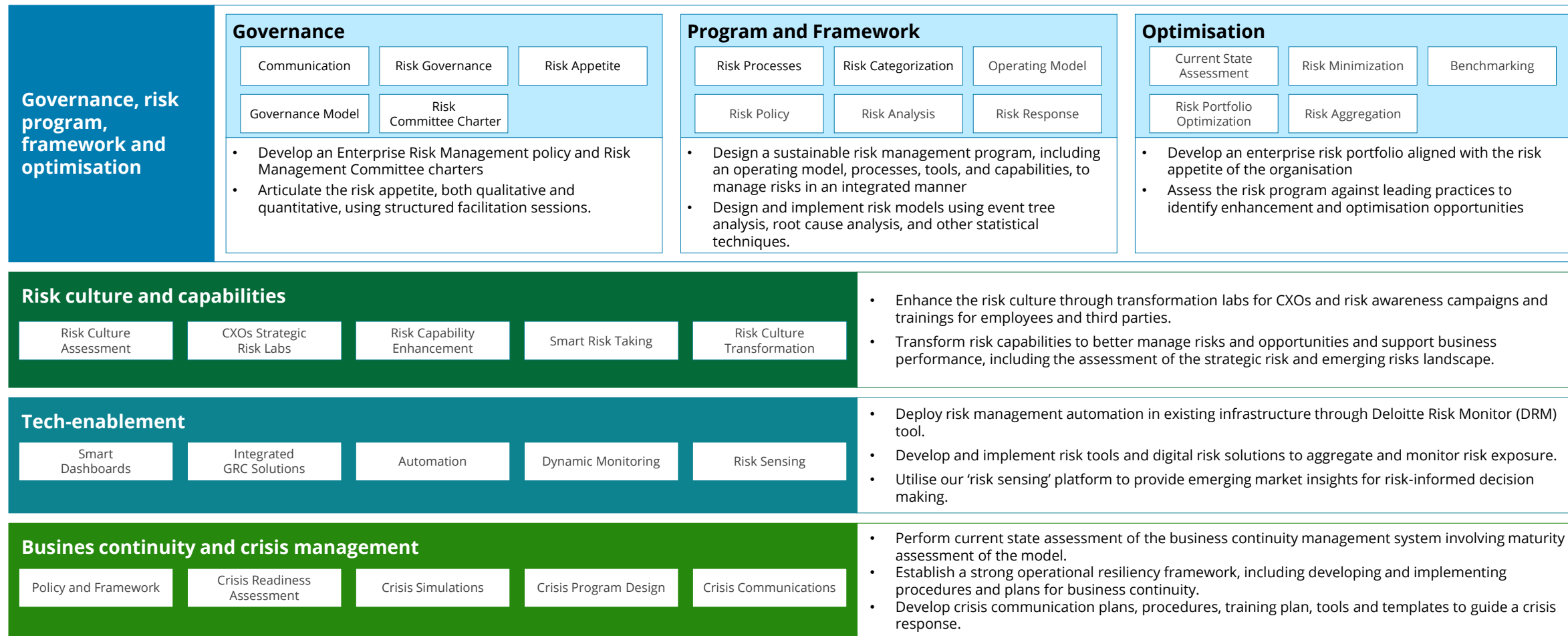
- Develop a Business Continuity Plan (BCP) for unplanned events and potential **crises scenarios**
- Integrate your **risk management framework** with business continuity programmes and crisis management

## 06 Risk reporting and disclosure

- Establish a **reporting mechanism** to inform the board and RCM on:
  - Risks identified, assessed, prioritised and minimised
  - Existing controls and proposed mitigation plans with timelines and status
- Disclose the purpose, scope, authority, composition, members, chairperson, meetings and attendance of the RMC in the annual report

# How we can support you during your journey towards risk transformation

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