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SEBI/CFD/DIL/CG/1/2008/08/04

April 08, 2008

The Managing Director/Executive Director/Administrator of all the Stock Exchanges

Dear Sir/Madam,

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

I. SEBI, vide circular SEBI/CFD/DIL/CG/1/2004/12/10 dated October 29, 2004, issued the revised clause 49 of the listing agreement, which has come into effect from January 1, 2006.

SEBI had received requests/suggestions to bring about clarifications on certain provisions of the clause. After examining the same, it has been decided to modify the existing Clause 49 by including the following provisions:

Mandatory provisions:

1. If the non-executive Chairman is a promoter or is related to promoters or persons occupying management positions at the board level or at one level below the board, at least one-half of the board of the company should consist of independent directors.
2. Disclosures of relationships between directors inter-se shall be made in specified documents/filings.
3. The gap between resignation/removal of an independent director and appointment of another independent director in his place shall not exceed 180 days. However, this provision would not apply in case a company fulfils the minimum requirement of independent directors in its Board, i.e., one-third or one-half as the case may be, even without filling the vacancy created by such resignation/removal.

4. The minimum age for independent directors shall be 21 years.

Non-mandatory provisions:

The company shall ensure that the person who is being appointed as an independent director has the requisite qualifications and experience which would be of use to the company and which, in the opinion of the company, would enable him to contribute effectively to the company in his capacity as an independent director.

In view of the above, certain changes have to be incorporated in Clause 49, details of which are placed in Annexure I.

II. Advice to Stock Exchanges

1. All Stock Exchanges are advised to:

- a. Give effect to the abovementioned policies and appropriately amend Clause 49 of Equity Listing Agreement in line with the text of the amendments specified in Annexure I.
- b. Make consequential changes, if any, in other clauses of Equity Listing Agreement.

2. All Stock Exchanges are further advised to communicate to SEBI, status of implementation of the requirements of this circular in the next Monthly Development Report.

III. This circular is issued in exercise of powers conferred by sub-section (1) of Section 11, read with sub-section (2) of Section 11A, of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

IV. This circular is available on the SEBI website at <http://www.sebi.gov.in/>.

Yours faithfully,

Parag Basu

ANNEXURE I

Clause 49 of the Listing Agreement shall be amended as follows –

1. In item (I),

(a) in para (A),

(i) after sub-clause (ii), the following proviso shall be inserted, namely:–

“Provided that where the non-executive Chairman is a promoter of the company or is related to any promoter or person occupying management positions at the Board level or at one level below the Board, at least one-half of the Board of the company shall consist of independent directors.”

(ii) in sub-clause (iii),

(A) in point (e), the word “and” occurring after “director;” shall be omitted;

(B) after point (f), the following shall be inserted, namely:–

“(g) is not less than 21 years of age.”

(b) in para (C), after sub-clause (iii), the following sub-clause shall be inserted, namely:–

“(iv) An independent director who resigns or is removed from the Board of the Company shall be replaced by a new independent director within a period of not more than 180 days from the day of such resignation or removal, as the case may be:

Provided that where the company fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal,

as the case may be, the requirement of replacement by a new independent director within the period of 180 days shall not apply.”

2. In item (IV), in para (G), after sub-clause (i), the following sub-clause shall be inserted, namely: –

“(ia) Disclosure of relationships between directors inter-se shall be made in the Annual Report, notice of appointment of a director, prospectus and letter of offer for issuances and any related filings made to the stock exchanges where the company is listed.”

3. In Annexure 1D under the heading “Non-Mandatory Requirements”, for item no. 1, the following shall be substituted, namely:-

“1. The Board - A non-executive Chairman may be entitled to maintain a Chairman’s office at the company’s expense and also allowed reimbursement of expenses incurred in performance of his duties. Independent Directors may have a tenure not exceeding, in the aggregate, a period of nine years, on the Board of a company. The company may ensure that the person who is being appointed as an independent director has the requisite qualifications and experience which would be of use to the company and which, in the opinion of the company, would enable him to contribute effectively to the company in his capacity as an independent director.”