



Consultation Paper 2023

Public Consultation on Revising Corporate Governance Rules Applicable to Entities Listed on the Colombo Stock Exchange

23rd July 2023

*Amendments and New Additions to Listing Rules are indicated in Bold Letters.

These Rules shall be read in conjunction with Section 7 (Rule 7.10) and Section 9 of the Listing Rules of Colombo Stock Exchange (CSE).

PROPOSED AMENDMENTS TO THE EXISTING LISTING RULES	
Existing CSE Listing Rules (Extracts of relevant Listing Rules are indicated in Italic Letters)	Proposed amendments to CSE Listing Rules*
<p>01 <u>Criteria For Defining 'Independence': Rule 7.10.4 of CSE Listing Rules</u></p> <p><i>Subject to Rule 7.10.3 (a) and (b), a non-executive director shall not be considered independent if he/she:</i></p> <p>a. <i>has been employed by the Listed Entity during the period of two years immediately preceding appointment as director;</i></p> <p>b. <i>currently has/had during the period of two (2) years immediately preceding appointment as a director, a Material Business Relationship with the Listed Entity, whether directly or indirectly;</i></p> <p>c. <i>has a Close Family Member who is a director, Chief Executive Officer (and/or an equivalent position) in the Listed Entity;</i></p> <p>d. <i>has a Significant Shareholding in the Listed Entity;</i></p> <p>e. <i>has served on the board of the Listed Entity continuously for a period exceeding nine (9) years from the date of the first appointment; provided however, if such director is re-appointed after a period of two (2) years from the date of completion of the preceding nine (9) year period, he will be considered as 'independent' for the purposes of this Section.</i></p> <p>f. <i>is employed in another company or business,</i></p> <p style="padding-left: 40px;"><i>(i) in which a majority of the other directors of the Listed Entity are employed or are</i></p>	<p><u>Criteria for determining independence:</u></p> <p>A Non-Executive Director shall not be considered independent if he/she:</p> <p>a. has been employed by the Listed Entity during the period of three (3) years immediately preceding appointment as a director;</p> <p>b. currently has/had during the period of three (3) years immediately preceding appointment as a director, a Material Business Relationship with the Listed Entity, whether directly or indirectly;</p> <p>c. currently has/had during the preceding financial year a Close Family Member who is a Director and/or CEO in the Listed Entity;</p> <p>d. has a Significant Shareholding in the Listed Entity;</p> <p>e. has served an aggregate period of nine (09) years on the Board of the Listed Entity from the date of the first appointment. Accordingly, such Director shall lose his/her independence and shall not be eligible for reappointment to the Board of Directors of such Entity as an Independent Director;</p> <p>f. is employed in another company or business;</p> <p style="padding-left: 40px;">(i) in which a majority of the other directors of the Listed Entity are employed or are directors; or</p> <p style="padding-left: 40px;">(ii) in which a majority of the other</p>

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<p><i>directors; or</i></p> <p><i>(ii) in which a majority of the other directors of the Listed Entity have a Significant Shareholding or Material Business Relationship; or</i></p> <p><i>(iii) that has a Significant Shareholding in the Listed Entity or with which the Listed Entity has a Business Connection;</i></p> <p>Definitions on Close Family Member, Listed Entity, Material Business Relationship, Business Connection and Significant Shareholding are specified in Rule 7.10.4 of CSE Listing Rules</p> <p><i>g. is a director of another company,</i></p> <p><i>(i) in which a majority of the other directors of the Listed Entity are employed or are directors; or</i></p> <p><i>(ii) that has a Business Connection in the Listed Entity or a Significant Shareholding;</i></p> <p><i>h. has a Material Business Relationship or a Significant Shareholding in another company or business,</i></p> <p><i>(i) in which a majority of the other directors of the Listed Entity are employed or are directors; and/or</i></p> <p><i>(ii) which has a Business Connection with the Listed Entity or Significant Shareholding in the same.</i></p>	<p>directors of the Listed Entity have a Significant Shareholding or Material Business Relationship; or</p> <p>(iii) that has a Significant Shareholding in the Listed Entity or with which the Listed Entity has a Business Connection;</p> <p>g. is a director of another company;</p> <p>(i) in which a majority of the other directors of the Listed Entity are employed or are directors; or</p> <p>(ii) that has a Business Connection in the Listed Entity or a Significant Shareholding;</p> <p>h. has a Material Business Relationship or a Significant Shareholding in another company or business;</p> <p>(i) in which a majority of the other directors of the Listed Entity are employed or are directors; and/or</p> <p>(ii) which has a Business Connection with the Listed Entity or Significant Shareholding in the same;</p> <p>(i) where the core line of business of such company is in direct conflict with the line</p>

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	<p>of business of the Listed Entity.</p> <p>i. If there are any other relationships or circumstances that impair independence;</p>
<p>Rule 7.10.3 b. - <i>In the event a director does not qualify as 'independent' against any of the criteria set out below but if the board, taking account all the circumstances, is of the opinion that the director is nevertheless 'independent', the board shall specify the criteria not met and the basis for its determination in the annual report.</i></p>	<p>This provision shall cease to exist after a period of one (1) year from the date of implementation of these Rules, and listed entities shall not be permitted to consider directors as "nevertheless independent".</p>
<p>02 a) <u>Rule 7.10.5 a.: Composition of Remuneration Committee/ Rule 7.10.6 a. : Composition of Audit Committee</u></p> <p>The Remuneration Committee / Audit Committee shall comprise; <i>of a minimum of two independent non-executive directors (in instances where an Entity has only two directors on its Board);</i> <i>or</i> <i>of non-executive directors a majority of whom shall be independent, whichever shall be higher.</i></p> <p><u>Rule 9.2.3: Composition of Related Party Transactions Review Committee</u></p> <p><i>The Committee should comprise a combination of non-executive directors and independent non-executive directors. The composition of the Committee may also include executive directors, at the option of the Listed Entity.</i></p>	<p><u>Composition of Remuneration Committee/ Audit Committee/ Nominations and Governance Committee</u></p> <p>The Remuneration Committee/ Audit Committee/ Nominations and Governance Committee shall be comprised of Non-Executive Directors, the quantum of which shall be a minimum of three (3) and of which a majority of whom shall be Independent.</p> <p>Listed Entities shall be granted a period of one (1) year from the date of implementation of these Rules to comply.</p> <p><u>Composition of Related Party Transactions Review Committee</u></p> <p>The Related Party Transactions Review Committee shall be comprised of Non-Executive Directors, a majority of whom shall be Independent and shall have a minimum of three Directors. It may also include executive directors, at the option of the Listed Entity.</p> <p>Listed Entities shall be granted a period of six (06) months from the date of implementation of these Rules to comply.</p>

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<p>b) <i>In a situation where both the parent company and the subsidiary are 'listed Entities', the Remuneration Committee/ Audit Committee/ Related Party Transactions Review Committee of the parent company may be permitted to function as the Remuneration Committee/ Audit Committee/ Related Party Transactions Review Committee of the subsidiary.</i></p> <p><i>However, if the parent company is not a Listed Entity, then the Remuneration Committee/ Audit Committee/ Related Party Transactions Review Committee of the parent company is not permitted to act as the Remuneration Committee/ Audit Committee/ Related Party Transactions Review Committee of the subsidiary. The subsidiary shall have a separate Remuneration Committee/ Audit Committee/ Related Party Transactions Review Committee.</i></p>	<p>This provision shall cease to exist with effect from 1st January 2026.</p>
<p>03 <u>Remuneration Committee - Disclosure in the Annual Report : Rule 7.10.5 c. of CSE Listing Rules</u></p> <p><i>The annual report should, , contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors</i></p>	<p><u>Remuneration Committee - Disclosure in the Annual Report</u></p> <p>The annual report shouldcontain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors separately.</p>
NEW ADDITIONS TO LISTING RULES	
04	<p>The age of a person who serves as an Independent Non-Executive Director shall not exceed seventy (70) years.</p> <p>This provision shall be applicable with effect from 1st January 2026.</p>
05	<p>The minimum number of members of a Listed Entity's Board of Directors shall be seven (07).</p> <p>Listed Entities shall be granted a period of one (01) year from the date of implementation of these Rules to comply.</p>

HOW TO SUBMIT COMMENTS

Please indicate your current level of engagement with capital market (e.g.: listed company, retail investor, public investor, non-public investor, local institutional investor, foreign institutional investor, stockbroker, stock dealer, Unit trust, IPO Manager, Research report provider etc).

Please submit your written comments to reach the SEC **on or before 2nd August 2023**, under the title **“Public Consultation on Revising Corporate Governance Rules Applicable to Entities Listed on the Colombo Stock Exchange”**.

Written comments may be sent by any one of the following methods:

By Registered Post : The Director General
The Securities and Exchange Commission of Sri Lanka
Level 29, East Tower, World Trade Centre, Echelon Square,
Colombo 01

E-mail : CG@sec.gov.lk

Submissions made via Registered Post should be marked **“Public Consultation on Revising Corporate Governance Rules Applicable to Entities Listed on the Colombo Stock Exchange”** on the top left-hand corner of the envelope.

If you wish to provide comments in the capacity of representative of an organization, you should specify the name of the organization whose views you represent. Participants submitting comments should include their personal/ company particulars including their name, correspondence address, contact number and email address, on the cover page of their submissions.