



# Proxy Advisory Guidelines

## PA Season 2026-27

**SUMMARY UPDATES**



## **SUMMARY OF KEY UPDATES TO THE PROXY ADVISORY GUIDELINES FOR THE YEAR 2026-27**

SES has released the updates to its Proxy Advisory Guidelines for 2026-27. For a comprehensive understanding of the policy framework, please refer to the detailed document uploaded on the Website: [Click Here](#)

Additionally, SES has prepared this concise educational document highlighting the key updates, while also reiterating certain existing principles for companies' reference and consideration. Companies are requested to take note of the below guidance.

### **RELATED PARTY TRANSACTIONS**

#### **1. Compliance with Industry Standards on RPT Disclosures**

SES will monitor compliance with Industry Standards on RPT Disclosures. The information mandated to be provided in the explanatory statement should be appropriately disclosed. For instance, ISF Standards, inter alia, requires the explanatory statement to disclose the fact that the Audit Committee has reviewed the certificates provided by the CEO/ Managing Director/ Whole Time Director/ Manager and CFO of the Listed Entity confirming that the terms of RPTs are in the interest of the Listed Entity. Further, the web-link and QR Code, through which shareholders can access the valuation report or other reports of external party, if any, considered by Audit Committee while approving the RPT, should also be disclosed in / along with the Notice.

Also, standards mandate disclosure of total amount of all the transactions undertaken by the listed entity or subsidiary with the related party in the current financial year up to the quarter immediately preceding the quarter in which the shareholder approval is sought. There may be situations where shareholder approval for RPTs are sought before the previous quarter financials are approved by the Board. If notice of the general meeting seeking approval for RPTs are signed before the quarterly financials are signed, then SES may take a relaxed view in relation with the said requirement.

#### **2. RPT Assessment Parameters**

SES has generally not supported RPT proposals where transactions were classified as being in the ordinary course of business despite not being aligned with the company's regular business activities or operations. Transactions undertaken outside the ordinary course warrant heightened scrutiny, particularly where the company has not provided a clear commercial rationale for entering into such arrangements with related parties.

Another important parameter considered by SES is the basis of arm's length pricing, as adequate disclosures in this regard enable shareholders to assess whether the terms of the transaction are fair and comparable to prevailing market standards.

SES has also raised governance concerns where there is a significant shift between the proposed RPT limits and the actual transaction values undertaken in preceding year, without adequate justification for such increase. Significant upward revisions without reasons may raise concerns regarding the possibility of routing business to related parties by replacing unrelated counterparties without sufficient commercial basis, or providing flexibility for transactions beyond the company's genuine business needs. Accordingly, SES expects companies to clearly justify the requirement of such increased limits.



In cases where concerns have arisen in relation to the above parameters, SES has sought additional disclosures and raised governance queries.

However, upon reviewing its past approach, SES is of the considered view that where historical practices over a reasonable period demonstrate that if any RPT has been limited in quantum and has not resulted in any identifiable governance concerns, a relaxed view may be adopted while evaluating similar proposals going forward.

Further, while applying its governance parameters, SES may adopt a more balanced view in cases where approval period is not over a period of one year and the Company holds more than 90% stake in the related party, there are no indications of dilution in such shareholding, and no governance concerns have been identified in relation to such historical or proposed RPTs.

### **3. Related Party Transaction Policy**

Given that the Related Party Transactions (RPT) Policy sets out the framework and governance approach adopted by the Company for identifying, reviewing and approving RPTs, SES expects such policy to be publicly accessible. Hence, SES does not support RPT resolutions where the Company has failed to upload its RPT Policy on its website. Further, the Companies should ensure that material modification limit is clearly disclosed in the RPT Policy.

### **4. Status on breach of Materiality Limit**

SES observes that companies often state in the Notice that the materiality limit "is not breached" or "is likely to be breached". Such disclosure creates a confusion as to whether limit is stated to not have breached by the time notice for the general meeting is issued or by the time shareholders approve the RPT. Hence, as a matter of good transparency, SES suggests that the explanatory statement should specifically clarify that the materiality limit will not be breached "by the time shareholders approve the RPTs". This would help shareholders understand that shareholder approval for such RPTs is being sought before the materiality threshold is breached.

## **SPECIAL RIGHTS**

5. In its assessment, SES evaluates whether such rights are commensurate with the shareholding or exposure, appropriately confined to material matters without extending to routine operational decisions, fair in their impact on non-participating shareholders, and supported by a clear and reasonable rationale. In case of existing rights, SES will also assess whether the exercise of such rights in the past has resulted in any negative governance implications on the Company. SES has undertaken an in-depth study of the governance implications of such rights and formulated parameters that will be considered while analysing the same. Detailed approach can be accessed through the guidelines available on the website.

## **CLUBBED PROPOSALS**

6. SES is of the view that critical proposals such as special rights or profit sharing agreements should not be clubbed with Scheme of Arrangement proposals. The inclusion of such rights within Scheme proposals may limit shareholders' ability to independently evaluate their implications, particularly due to the complexity and far-reaching impact generally associated with Scheme of Arrangement proposals. In order to enable shareholders to assess each proposal in an informed manner, such matters should be presented separately.



## **ADOPTION OF FINANCIAL STATEMENTS**

### **7. Non-Payment of Undisputed Statutory Dues**

SES does not support the adoption of financial statements where the Company has failed to pay undisputed statutory dues without adequate justification. Such non-payment reflects disregard for statutory obligations and raises serious concerns regarding the Company's compliance and governance culture.

While non-payment of undisputed statutory dues remains a concern, SES may take a more considered view where the quantum involved is nominal and does not indicate systemic non-compliance. The determination of what constitutes "nominal" will be based on the facts and circumstances of each case.

## **STATUTORY AUDITORS**

### **8. Re-appointment of Statutory Auditors and Material Changes in previous remuneration payments or proposed terms**

When evaluating proposals for the re-appointment of auditors, SES examines the remuneration paid to the auditors during their previous term and the remuneration proposed for their future period. If significant change is observed in the payments made during their previous term, or if the remuneration proposed is substantially higher than the earlier remuneration without adequate justification, SES may not support such proposals. Clarity regarding remuneration payments is essential when considering auditor re-appointment proposals, as unjustified material change may impact independence.

### **9. Remuneration terms of Joint Auditors**

SES is of the view that any significant disparity in remuneration paid to Joint Auditors should be supported by clear and adequate justification. However, in its analysis of such proposals so far, SES observes that remuneration is often determined based on the scope and complexity of work allocated to each auditor. Accordingly, while SES may highlight such instances to encourage greater transparency, it may take a balanced and pragmatic view and not oppose the proposal solely in this regard unless governance concerns arise from the differential remuneration observed.

### **10. Statutory Auditors at Banks - Inconsistency in the Legal Provisions:**

Banks have been following two different approaches for the appointment of statutory auditors due to inconsistencies in the legal provisions prescribed by the Reserve Bank of India (RBI). According to RBI Circular, shareholders are required to approve auditors for a continuous term of three years. However, the RBI itself grants approval for auditors on an annual basis, subject to yearly assessment. This creates a regulatory conflict: when shareholders approve auditors for a three-year term, they are effectively approving a tenure beyond what the RBI has actually approved. On the other hand, if shareholders approve auditors for only one year, it leads to non-compliance with the RBI's requirement for a continuous three-year shareholder approval.

This contradiction presents both compliance and governance challenges. In response to this ambiguity, SES had decided to recommend voting against auditor appointment resolutions, whether proposed for one year or three years. This stance intended to highlight the inconsistency identified and the need for greater clarity in the legal framework governing such appointments.



Now that SES has highlighted this issue for a considerable period, SES will no longer raise issues if the auditors are proposed for 3 years. However, SES will continue to raise compliance issue if auditors are proposed for 1 year term.

## **SECRETARIAL AUDITORS**

- 11.** Regulatory provisions governing Secretarial Auditor appointments are presently at a nascent stage and may not adequately contemplate every practical fact pattern, resulting in certain areas lacking regulatory clarity. Accordingly, interpretational challenges may arise, with multiple views being possible in specific situations. In view of the same, SES has analysed various practical scenarios and identified concerns that may emerge in such cases. SES has accordingly formulated an analytical framework to assess these situations in a consistent and balanced manner. The detailed approach may be accessed through the guidelines available on the website.

## **DIRECTOR APPOINTMENTS (GENERAL)**

### **12. Shareholder Approval for Director Appointments at PSUs**

Under SEBI LODR, listed entities are expected to obtain shareholders' approval for Director/Manager appointments within a reasonable timeframe, and not defer the same until the next AGM, as Directors who do not meet shareholder expectations should not continue on the Board for an extended period without shareholder approval.

At the same time, an exception has been recognized for public sector companies, which are permitted to seek shareholder approval at the general meeting held following the appointment. While SES has historically expected public sector companies to align with the general timeline applicable to other listed entities, a reassessment indicates that Director appointments in such companies typically undergo screening at the ministry level, thereby mitigating concerns relating to merit or suitability. In light of this, SES will generally support resolutions in cases where the applicable statutory timelines are adhered to and the Director meets SES criteria. However, SES will continue to encourage public sector companies to follow the broader practice of obtaining shareholders' approval at the earliest opportunity, as a matter of stronger governance.

SES notes that Corporate Laws (Amendment) Bill, 2026, inter alia, proposes to mandate shareholder approval for director appointments within the earlier of 3 months or next general meeting. LODR prescribes the same requirement, however, exempts public sector companies in this regard. Hence, if the proposed amendment becomes mandatory without any exemption for public sector companies, then, the amended requirements shall prevail.

### **13. Attendance details: Board and Committees**

For resolutions relating to re-appointment (including pursuant to rotation), continuation, change in designation, remuneration, or modification of remuneration terms, companies should disclose board and committee attendance details in the explanatory statement.

While disclosing attendance in the explanatory statement, attendance for the latest completed financial year should be disclosed. Additionally, where a substantial portion of the current financial year has elapsed, attendance for the ongoing period should also be included to provide a more current view.



While the SEBI LODR Regulations, 2015 and Secretarial Standards on General Meetings (SS-2) prescribe requirements on attendance disclosures, companies should ensure that such disclosures reflect not just technical compliance, but also the underlying intent of transparency and informed decision-making by shareholders.

Further, reasons for absence from meetings should be adequately explained as part of the disclosures.

Under the revised approach, SES will not take a relaxed view solely on the basis of satisfactory attendance in the most recent year. Greater weight will be placed on attendance trends over recent years.

Further, apart from AC and NRC, attendance at RMC will also be accorded greater importance.

Attendance at other committees will continue to be monitored and analysed. SES will take a negative stance when material negative implications arise due to a failure to effectively discharge responsibilities in such other committees.

#### **14. Disclosure on Director Experience**

Director appointments should be accompanied by comprehensive disclosures on the individual's experience, expertise, and competencies, enabling shareholders to assess their credibility and suitability for the Board.

Such disclosures assume greater importance in cases where the proposed individual has limited years of professional experience or where their experience is primarily derived from roles in unlisted entities or firms with limited publicly available information. In such instances, companies should provide additional context on the nature of responsibilities handled, scale of operations, and specific contributions made in their previous roles, to allow for an informed evaluation of the individual's capabilities and readiness for board responsibilities.

#### **15. Revised stance for combined leadership positions**

SEBI had, on the recommendation of Kotak Committee on Corporate Governance, introduced provision relating to separation of powers, that is to segregate the role of Chairperson and EDs and any relationship thereto, in the LODR Regulations. However, owing to unsatisfactory level of compliance achieved, pandemic situation, etc., SEBI later made such provision 'voluntary'.

Notwithstanding the above relaxation by SEBI, given the mission of advocating good corporate governance, SES continued to raise concern wherever the Board would be chaired by an ED, or where the Board Chair was related to EDs/MD/CEO, since SES believes that such position/arrangement has a potential to result in concentration of powers.

However, SES' experience indicates that there are also companies that have demonstrated that such roles have had no negative implications on their governance which is exhibited through consistent growth, fair remuneration practices and absence of unfair practices and governance issues in their operations or dealings. In such cases, SES believes that the structure may not be viewed negatively.

Thus, moving forward, SES will recommend AGAINST combined positions of ED/MD/CEO and Board Chairperson only when governance issues are identified with such leadership such as unfair extraction of benefits through remuneration or related party transactions, company specific negative or subdued performance or other similar reasons as discussed above. In other cases with no governance or other issues identified, SES may take a relaxed view.



Further, SES has, for a considerable period, not been supportive of structures that have a potential to result in concentration of powers in the hands of a single individual. For instance, combined positions of Board Chairpersonship with Audit Committee Chairpersonship or combined position of Audit and Nomination & Remuneration Committee Chairperson. SES believes that leadership positions at the Board, Audit and Nomination and Remuneration Committee levels are of critical importance and, therefore, should ideally be held separately to preserve independence and objectivity.

However, as already discussed, SES will place greater emphasis on the prevailing compliance and governance situation and where analysis shows that no negative implications arose as a result of such combined roles, SES may not raise issues.

While SES continues to maintain that separation of these leadership roles represents best governance practice, it may, considering the above factors, adopt a relaxed view and permit such combined positions.

#### **16. Interpretation of “Next General Meeting” requirement in relation with Shareholder Approval timeline for Director Appointments**

Under Regulation 17(1C) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, shareholder approval for the appointment of a director/manager is required to be obtained at the next general meeting following the appointment or within a period of three months from the date of appointment, whichever is earlier. However, SES has observed instances where the next general meeting for which notice has already been issued falls immediately after an appointment. Hence, incorporating an agenda item into a notice already issued may practically not be feasible for a Company especially where less than 21 clear days are left until next general meeting.

In such cases, a strict interpretation may lead to situations where shareholder approval is effectively deferred due to procedural constraints, which does not appear aligned with the intent of the law. This results in a grey area where both possible approaches involve technical limitations. In such scenarios, SES believes that as long as the appointment is placed before shareholders within a reasonable timeframe of 3 months or next convened general meeting, major governance concerns do not arise. Accordingly, SES will flag the technical non-compliance, but will not recommend voting AGAINST a director solely on this ground.

Further, in case of AGMs, Section 161 of the Companies Act, 2013 does not permit continuation of an additional director beyond the next AGM without shareholder approval. Hence, a literal reading suggests another technical issue. However, going by the spirit and intent of law as discussed above, SES will not issue negative vote in this regard provided the above mentioned general timeline is met.

#### **17. Exclusion of period taken for receiving regulatory / government / statutory approval from shareholder approval timeline**

The proviso to Regulation 17(1C) allows exclusion of the time taken in receiving regulatory / government / statutory approvals from the prescribed shareholder approval timeline. However, SES has observed instances where directors have assumed office and continued on the Board for a considerable period without shareholder approval, with companies deferring such approval until receipt of the requisite approvals.



This results in directors continuing on the Board without shareholder approval as well as statutory approval for extended periods, thereby diluting the intent of introducing a stricter timeline. Conversely, restricting this exclusion only to cases where directors have not commenced office raises questions on the practical utility of such an exemption for companies requiring regulatory / government / statutory approval for appointments.

Accordingly, a grey area persists as to whether this exclusion is intended to apply only where directors are appointed but have not assumed office, or also where they have already commenced their office.

In view of this interpretational gap, SES will adopt a balanced approach and will not recommend a negative vote solely on this ground, provided that shareholder approval is sought within the stipulated timeline reckoned from the date of receipt of the relevant approval, until regulatory clarity is provided in this regard.

#### **18. Director previously rejected by shareholders, proposed again for shareholder approval**

Regulation 17(1C)(b) of SEBI LODR allows appointment or a re-appointment of a person who was earlier rejected by shareholders subject to prior shareholder approval along with a detailed justification for re-proposing such individual. SES will also expect the Companies to explicitly disclose in the explanatory statement that the Company has engaged with the shareholders to understand the concerns underlying the earlier rejection and have adequately addressed those concerns before placing the proposal again.

#### **19. Re-appointment of Non-Retiring Director when the Board is non-compliant with requirement of minimum Retiring Directors**

Where the Board had a shortfall in the number of retiring directors vis-à-vis the requirement stipulated under Section 152(6) of the Companies Act, 2013, SES had previously recommended AGAINST the re-appointment of NRC members and the Board Chairperson only. However, going forward, SES will not support the re-appointment of non-retiring directors as well when the Board is non-compliant with requirement of minimum 2/3<sup>rd</sup> retiring directors on the Board.

#### **20. Remuneration skewness in favour of select directors**

SES does not support the re-appointment or continuation of a director where the individual has accepted at the time of the proposal, or drawn remuneration that is excessive or disproportionately skewed in their favour compared to other directors with comparable experience, without compelling justification.

SES recognises that legitimate reasons for differential pay may exist, such as variations in roles and responsibilities, succession planning considerations, etc. This is not a new policy position; it is reiterated to guide companies to adequately address and disclose such rationale in the Notice, thereby bridging the information gap.

#### **21. Transition from Independent to Non-Independent Roles**

SES, as a policy, does not support the transition of Independent Directors into Non-Independent roles within the same company or group without an adequate cooling-off period. Such transitions may undermine independence, particularly where there is a perception that future roles could influence the conduct or objectivity of an Independent Director during their tenure. Hence, SES



expects a reasonable cooling-off period before such appointments are considered. Accordingly, SES recommends AGAINST such appointments where the absence of a cooling-off period raises concerns regarding independence.

However, once the transition has been effected and shareholders have had an opportunity to express their view, continued opposition in subsequent proposals may have limited incremental governance impact. Accordingly, while SES will continue to highlight governance observation and monitor such cases, it will not extend an AGAINST recommendation beyond the initial stage unless governance issues are identified.

## **22. No shareholder approval for Office of Profit position held**

SES has observed instances where directors proposed for appointment, previously held or continue to hold at group level, office of profit positions for which shareholder approval is not obtained. SES will not support such appointments unless the past positions are ratified with a clear disclosure regarding the non-compliance.

It should be noted that Section 188 of the Companies Act, 2013 exempts shareholder approval for related party transactions including office of profit positions entered in the ordinary course of business and on an arm's length basis; however, law does not prescribe any clear mechanism on how to determine whether a transaction truly meets the ordinary course and arm's length test, effectively allowing companies to keep such arrangements outside shareholders' scrutiny based on management's assertion alone. Therefore, where an office of profit position is claimed to be at arm's length and not placed before shareholders for approval, there should be clear and adequate disclosures explaining the basis of such determination. This should include bias free mechanisms such as external evaluation or independent certification or a detailed analysis that establishes arm's length nature of the arrangement. In the absence of transparent reasoning, the exemption sought will not be justified. Accordingly, SES will not support the appointment of such individual if proposed before shareholders for directorship or manager position.

## **23. Shareholder approval for partial period**

Companies should ensure that shareholder approval for director appointment and remuneration is sought from the date of appointment and not from the date of the general meeting, as the latter results in a portion of the tenure and remuneration remaining unapproved by shareholders. This approach should be followed for all Directors, including Non-Executive Directors, Independent Directors and Executive Directors.

## **INDEPENDENT DIRECTOR**

### **24. Prior Approval of shareholders for re-appointment of Independent Directors ("ID"):**

SES has consistently advocated that re-appointment of IDs should be undertaken only after obtaining prior approval of shareholders by way of a special resolution, and notes that several companies have aligned with this approach. However, as the law does not expressly use the term "prior", instances are also observed where companies seek approval after the re-appointment. SES believes that interpretations should be guided by the spirit of the law rather than a narrow reading of its wording; nevertheless, given the absence of clear legal prescription and the limited governance impact where shareholder approval is obtained within the prescribed timelines (i.e., within three months or at the next general meeting), SES will flag the concern but will not



recommend AGAINST solely in this regard provided approvals are obtained within the general statutory timeline and no other issues are identified.

## **25. Remuneration to Independent Directors**

Remunerating an Independent Director in a manner that appropriately recognises contribution while safeguarding independence remains a delicate balance. One approach is profit-linked commission, which, on the positive side, aligns remuneration with the Company's performance and ensures that pay-outs arise when the Company performs well. However, where such commissions result in significant monetary benefits, there is a risk that the quantum could impair a Director's independence.

Another approach is fixed remuneration, which provides certainty of payment and allows an Independent Director to discharge duties without any incentive to influence outcomes for higher pay, thereby focusing purely on oversight and governance. That said, fixed remuneration may also resemble a guaranteed payment from the Company, which could raise concerns around economic dependence and, in turn, independence. SES is of the view that such concerns can be mitigated where the remuneration is reasonable in quantum.

Given that both approaches have inherent advantages and limitations, SES will place greater emphasis on the quantum of remuneration and remuneration parameters formulated by the NRC to determine the pay, when assessing its fairness and the potential implications for independence.

## **26. Nomination and Remuneration Committee (NRC) Chairperson recommending a Director with inadequate attendance**

SES will not support re-appointment of Director who is chairperson of NRC and has recommended a Director for re-appointment despite poor/inadequate attendance of that Director at Board and Committee meetings without adequate reasons.

## **REMUNERATION**

### **27. Disclosure of Remuneration from Group Companies**

If the Director, executive or non-executive, receive remuneration from any subsidiary or associate company, then a disclosure regarding the remuneration terms should be disclosed in the explanatory statement while seeking remuneration approval payable from the listed company in order for shareholders to have a holistic understanding. Further, disclosure regarding such payments made should be made in the Annual Reports for periodic information of the shareholders. SES will not support proposals if information is absent or incomplete.

### **28. Disguised Sitting Fee:**

Section 197(5) read with Rule 4 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, stipulates that sitting fees payable to a director for attending Board or Committee meetings shall not exceed ₹ 1 lakh per meeting. SES views remuneration structures with caution where commission payments were linked to meeting attendance, as such arrangements indirectly result in pay-outs exceeding the prescribed threshold. However, recognising the enhanced responsibilities, time commitment and fiduciary duties of non-executive directors, SES acknowledges that attendance-linked commissions may, in substance, reflect performance and contribution rather than merely meeting attendance. Accordingly, while the underlying concern



remains relevant, SES will assess such arrangements holistically, taking into account the Company's performance, the Director's role and contribution, and the overall reasonableness of remuneration, and will not form an adverse opinion solely on the basis of the structure of payment.

## **SHARE BASED BENEFITS**

### **29. Dilution as a result of existing schemes**

In the notice seeking approval for any ESOP Scheme, SES urges companies to provide a detailed break-up of options granted, exercised and available for future grant under existing schemes as well as discontinued schemes under which granted options are yet to vest or be exercised, in order to facilitate a proper assessment of dilution already incurred as well as potential future dilution. Such disclosure is essential for shareholders while analysing the cumulative dilution impact arising from the proposed schemes.

### **30. Broad range of Vesting Period**

SES believes that the intent behind SEBI mandating certain specific disclosures in the explanatory statement to the Notice is to enable the shareholders to understand the meaning, scope and implications of such items at the time of decision making. Accordingly, where any disclosure item is drafted in a vague, overly broad or open-ended manner, it may fail to effectively convey relevant information to shareholders, thereby defeating the underlying regulatory intent. Further, such broad provisions may also result in excessive discretion being exercised by the Board/NRC on a case-to-case basis amongst employees.

In line with the above, SES recognises that vesting periods may vary across employees depending on the nature of their roles and responsibilities. However, the scope of such discretion should remain sufficiently defined to ensure that the range is not so excessively broad (not differ by over 5 years) as to create vesting period permutations that effectively cease to represent a common scheme framework.

### **31. Short Exercise Period**

Exercise period determines the time available to employees to realise the benefit of vested options. SES believes that a short exercise period may undermine the objective of equity-based compensation by effectively compelling employees to exercise options within a limited timeframe or risk lapse of vested benefits despite having satisfied vesting and performance conditions.

Accordingly, SES believes that employees should be provided a reasonable and meaningful opportunity to exercise vested options and, therefore, SES will not support ESOP schemes that prescribe an unreasonably short exercise period (ideally 1 year or more, but in any case not less than 3 months). Further, a relatively longer exercise period may be warranted for companies with cyclical operations where the company's performance and market conditions may be uneven across different periods of the financial year.

ESOP schemes should also provide adequate flexibility to address situations where broader macroeconomic conditions or other factors unrelated to company performance adversely impact employees' ability to exercise options.

In exceptional circumstances such as death, permanent incapacitation or termination without cause, SES believes that employees or their legal heirs should be provided adequate time to exercise vested



options. Accordingly, even in these cases, SES will identify governance concerns where the exercise period prescribed is unreasonably short (ideally 1 year, but in any case not less than 3 months).

### **32. NRC Discretion to alter Exercise Period**

SES believes that shares allotted upon exercise of options represent earned compensation and an ownership interest accrued by employees after satisfying vesting conditions, performance expectations and continued service requirements. The exercise period is a procedural timeline for availing such accrued benefit. Accordingly, there should generally be no basis for prescribing different exercise periods for different employees. Therefore, apart from not supporting schemes with unreasonably short exercise periods, SES will also not support ESOP Schemes where the NRC is granted discretion to vary the exercise period across employees. The exercise period should be reasonable and sufficiently long, uniformly applicable to all employees and disclosed upfront in the explanatory statement to the Notice.

### **33. NRC Discretion to determine Lock-in provisions:**

SEBI SBEB & SE Regulations, 2021 permit companies to impose a lock-in on the shares issued pursuant to exercise of options, subject to the period being disclosed in the explanatory statement while seeking shareholder approval for the Scheme. However, as discussed above, upon satisfaction of the applicable vesting, performance and service conditions, shares allotted pursuant to exercise of options become an earned asset and ownership interest of the employee. Accordingly, any post-exercise lock-in should be imposed only in exceptional circumstances, be supported by a clear rationale, and remain reasonable in duration.

Therefore, going forward, SES will not support ESOP schemes containing lock-in provisions unless the scheme clearly specifies the circumstances in which such lock-in may be imposed, and the applicable lock-in period.

### **34. Disclosure of Vesting Conditions:**

SEBI SBEB & SE, 2021 regulations mandate disclosure of vesting conditions in the explanatory statement to the Notice. SES has observed several instances where performance conditions are disclosed in generic terms or are left to the discretion of the NRC. Such disclosures do not convey the nature of performance conditions applicable to different categories of employees under the Scheme and the performance measurement mechanism. SES will progressively formulate policy parameters to encourage more meaningful and transparent disclosures in this regard. In the interim, SES urges companies to strengthen the quality and specificity of disclosures in this area.

### **35. Discretion to Compensation Committee / Board to make alteration to ESOP Schemes**

Terms of an ESOP scheme cannot be varied without approval of shareholders for such variation along with rationale for the same and details of employees who are beneficiaries. If a Company allows Compensation Committee this discretion and leaves mandatory disclosure items broad or open-ended then SES will not support such schemes. It should be noted that this point is discussed here to inform companies that if discretion to compensation committee is only to make procedural or minor changes, then the same should be explicitly clarified in the Notice for such intent to be clearly understood.

### **36. SES Approach on analysing amendments**



When a Scheme is proposed to be modified/amended, SES will analyse and provide its opinion on the proposed modifications. The modifications should be clearly disclosed along with the rationale for the variation and a specific disclosure on whether such modifications will apply to past grants pending exercise, future grants only, or both. While analysing the amendments, SES will also assess the Scheme holistically, including any original concerns that continue to persist, and whether the proposed amendments are inherently linked to or likely to aggravate such concerns. If the amendments are procedural or technical in nature and do not have any bearing on the identified concerns, SES may not raise concerns on the amendments. However, in all other cases, SES will not support the amendments unless the originally identified concerns are adequately addressed.

## **ISSUANCE OF SECURITIES:**

### **37. Issuance to Institutional Investors**

SES is of the view that existing shareholders should be given the first opportunity to participate in any fresh equity issuance. However, issuance of equity shares to institutional investors may be considered appropriate in cases where the current institutional shareholding is relatively low or concentrated among a limited number of investors. A well-diversified and strong institutional investor base supports a stable and balanced equity structure for a listed company and may be positive for governance. Hence, while analysing such proposals, SES will also give emphasis to this factor; however, notwithstanding the same, SES will not support proposals where the extent of dilution is not justified.

### **38. Warrants in case of broader strategic transactions**

SES believes that warrants should be priced using an appropriate valuation approach that adequately factors in the value arising from the conversion period. Accordingly, SES generally does not support the issuance of warrants at a price equivalent to equity shares. Exceptions may be considered in limited circumstances, such as where the conversion period is relatively short, the pricing already incorporates a meaningful premium, the issuance is part of a broader strategic transaction, or there are compelling financial or business considerations that justify such pricing in the interest of shareholders.

## **ARTICLES OF ASSOCIATION**

### **39. Articles of Association and Combined Positions**

As discussed above, SES, as a matter of policy, will henceforth adopt a case-by-case approach while evaluating combined positions such as combination of the roles of Board Chairperson and an executive position. Accordingly, SES will not automatically recommend a negative vote on the Articles of Association solely due to the presence of provisions permitting such a combined role; instead, its recommendation will be aligned with the overall governance situation prevailing as a result of the same.

## **RE-CLASSIFICATION OF PROMOTER SHAREHOLDING**

### **40. Re-classification with negligible impact**



SES does not support proposals seeking partial re-classification of the promoter/promoter group shareholding unless compelling reasons are provided. SES is of the view that partial re-classifications are not in line with the spirit of law as individuals/entities belonging to a common set or group of promoters will be part of public as well as promoter categories.

However, SES acknowledges that there may be legitimate cases where individuals, despite being closely related to the promoters, seek to be re-classified as public shareholders, due to their lack of involvement or interest in the management or business of the company. In such cases, if the exiting promoters have entered into a formal separation agreement with the continuing related promoters, then, SES may recommend in favour of the re-classification. However, it is essential that the explanatory statement clearly confirms that all outgoing promoters/promoter group members and continuing related promoters/promoter group members are parties to the separation agreement. Furthermore, the agreement must either be duly registered under the Registration Act, 1908, or its material terms must be disclosed on the stock exchanges prior to the re-classification.

However, SES may adopt a relaxed approach if the re-classifying promoters hold a minimal stake (equal to or less than 1%), resulting in negligible impact on the overall shareholding pattern, no governance issues are identified and the need for re-classification is justified.

## **GENERAL**

### **41. Disclosure on timeline of transaction completion**

When an event-based transaction is placed before shareholders for approval such as acquisition or sale of assets, investments in new projects, or other material transactions, the Company should disclose the expected timeline for completion. In the absence of such disclosures, shareholders are unable to effectively monitor the progress of the transaction, assess whether the stated objectives are being achieved within a reasonable timeframe, or seek accountability in case of material delays. Timelines also provide important context to evaluate execution risk, commercial viability and the likelihood of value realisation from the proposed transaction. Such disclosures are essential for informed shareholder decision-making, particularly in transactions involving significant capital allocation or strategic importance.