

PROPOSED STANDARDS ON CORPORATE GOVERNANCE FOR LISTED COMPANIES

Every company listed on a Stock Exchange and every company which makes an application for listing, whether or not such listing has taken place or such application for listing has been made prior to the coming into force of the listing requirements of that Stock Exchange, is required to comply with the following listing requirements, including any amendments, additions and variations that may be made to them from time to time.

1) Non – Executive Directors

(a) The board of directors of a listed company shall include at least

two non-executive directors; or

such number of non-executive directors equivalent to one third of the total number of directors

whichever is higher.

(b) The total number of directors is to be calculated based on the number as at the conclusion of the immediately preceding annual general meeting.

(c) Any change occurring to this ratio shall be rectified within 90 days from the date of the change. This time period may be extended in consultation with the CSE.

2) Independent directors

(a) Where the constitution of the board of directors includes only two non-executive directors in terms of clause 1 above, both such non-executive directors shall be ‘independent’. In all other instances two or 1/3 of non-executive directors appointed to the board of directors, whichever is higher shall be ‘independent’:

(b) The board shall require each non-executive director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria set out in specimen form. *(To be attached upon inclusion in the Listing Rules)*

3) Disclosures relating to directors

- (a) The board shall make a determination annually as to the independence or non-independence of each non-executive director based on such declaration and other information available to the board and shall set out in the annual report the names of directors determined to be ‘independent’.
- (b) In the event a director does not qualify as ‘independent’ against any of the criteria set out below but if the board, taking account of 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.
- (c) In addition to disclosures relating to the independence of a director set out above, the board shall publish in its annual report a brief resumé of each director on its board which shall include information on the nature of his/her expertise in relevant functional areas;
- (d) Upon appointment of a new director to its board, the company shall forthwith provide to the Exchange a brief resumé of such director for dissemination to the public. Such resumé shall include information on the matters itemized in paragraphs (a), (b) and (c) above.

Criteria for defining “Independence”

Subject to Clause 3 (a) and (b), a non-executive director shall not be considered independent if he/she:

- (i) has been employed by the Listed Company during the period of two years immediately preceding appointment as director;
- (ii) currently has/had during the period of two years immediately preceding appointment as director, a Material Business Relationship with the Listed Company, whether directly or indirectly;
- (iii) has a Close Family Member who is a director, Chief Executive Officer (and/or an equivalent position) in the Listed Company;
- (iv) has a Significant Shareholding in the Listed Company;
- (v) has served on the board of the Listed Company continuously for a period exceeding nine years from the date of the first appointment;

- (vi) is employed in another company or business,
- a) in which a majority of the other directors of the Listed Company are employed or are directors; or
 - b) in which a majority of the other directors of the Listed Company have a Significant Shareholding or Material Business Relationship; or
 - c) that has a Significant Shareholding in the Listed Company or with which the Listed Company has a Business Connection;
- (vii) Is a director of another company,
- a) in which a majority of the other directors of the Listed Company are employed or are directors; or
 - b) that has a Business Connection in the Listed Company or a Significant Shareholding;
- (viii) Has a Material Business Relationship or a Significant Shareholding in another company or business,
- a) in which a majority of the other directors of the Listed Company are employed or are directors; and/or
 - b) which has a Business Connection with the Listed Company or Significant Shareholding in the same;

For the purposes of this Clause:

- *“Close Family Member” shall mean and include the director’s spouse, parents, grandparents, children, brothers, sisters, grandchildren and any person who is financially dependent on such a director.*
- Financial Dependent individuals include any person who received more than half of their support for the most recent fiscal year from a director and/ or his or her spouse*
- *“Listed Company” shall mean the listed company to the board of which the director is appointed, its parent and/ or subsidiary company, and a subsidiary of the parent company.*
 - *“Material Business Relationship” shall mean a relationship resulting in income/ non-cash benefits equivalent to 10% of the director’s annual income.*

- *“Business Connection” shall mean a relationship resulting in transaction value equivalent to 10% of the turnover of that company or business.*
- *“Significant Shareholding” shall mean a shareholding carrying not less than 10% of the voting rights of a company.*

4) Remuneration Committee

A listed company shall have a remuneration committee in conformity with the following:

A “listed company” for the purposes of this clause shall mean the company listed in accordance with the Listing Rules.

Composition

The remuneration committee should be comprised by a minimum of two independent non-executive directors (in instances where a company has only two directors on its board); or

exclusively by non-executive directors a majority of whom shall be independent, whichever shall be higher.

In a situation where both the parent company and the subsidiary are ‘listed companies’, the remuneration committee of the parent company may be permitted to function as the remuneration committee of the subsidiary.

However, if the parent company is not a listed company, then the remuneration committee of the parent is not permitted to act as the remuneration committee of the subsidiary (i.e the subsidiary should have a separate remuneration committee).

One non-executive director shall be appointed chairman of the committee by the board of directors.

Functions

The Remuneration Committee shall recommend the remuneration payable to the executive directors and Chief Executive Officer of the listed company and/or equivalent position thereof, to the board of the listed company which will make the final determination upon consideration of such recommendations.

Disclosure

The annual report should set out the names of directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors.

The Term "remuneration" shall make reference to cash and all non-cash benefits whatsoever received in consideration of employment with the listed company. (excluding statutory entitlements such as Employees Provident Fund and Employees Trust Fund)

5) Audit Committee

A listed company shall have an audit committee in conformity with the following:

A "listed company" for the purposes of this clause shall mean the company listed in accordance with the Listing Rules.

Composition

The audit committee should be comprised of a minimum of

two independent non-executive directors (in instances where a company has only two directors on its board); or
exclusively by non-executive directors a majority of whom shall be independent

whichever shall be higher.

In a situation where both the parent company and the subsidiary are 'listed companies', the audit committee of the parent company may function as the audit committee of the subsidiary.

However, if the parent company is not a listed company, then the audit committee of the parent is not permitted to act as the audit committee of the subsidiary (i.e the subsidiary should have a separate audit committee).

One non-executive director shall be appointed chairman of the committee by the board of directors.

Unless otherwise determined by the audit committee the chief executive officer and the chief financial officer of the listed company shall attend audit committee meetings.

The chairman or one member of the committee should be a Member of a recognised professional accounting body.

Functions

Shall include

- Oversight of the preparation, presentation and adequacy of disclosures in the financial statements of a listed company, in accordance with Sri Lanka Accounting Standards.
- Oversight of the Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.
- Oversight over the processes to ensure that the Company's internal controls and risk management, are adequate, to meet the requirements of the Sri Lanka Auditing Standards.
- Assessment of the independence and performance of the Company's external auditors.
- To make recommendations to the board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors.

Disclosures

The names of the directors (or persons in the parent company's committee in the case of a group company) comprising the audit committee should be disclosed in the annual report.

The committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the annual report.

The annual report shall contain a report by the audit committee, setting out the manner of compliance by the Company in relation to the above, during the period to which the annual report relates.

DECLARATION

I,full name ofplace of residence
being a Christian make oath and say .../
not being a Christian solemnly, sincerely and truly affirm and declare as follows in
terms of rule of the Listing Rules:

- a. I am a non-executive director of(Company) being so appointed on
- b. I have been / have not been employed by the Listed Company*, during the period of two years immediately preceding my appointment as director of the Company.
- c. I currently have / do not have a Material Business Relationship with the Listed Company, directly or indirectly.
- d. I had / did not have during the period of two years immediately preceding appointment as director, a Material Business Relationship with the Listed Company, directly or indirectly.
- e. I have / do not have a Close Family Member(s) who is a director or chief executive officer (or equivalent position) in the Listed Company;
- f. I have / do not have a Significant Shareholding in a Listed Company;
- g. I have / have not served on the board of the Listed Company for a period exceeding nine years from the date of the first appointment;
- h. I am / am not employed in another company or business,
 - (i) in which a majority of the other directors of the Listed Company are employed or are directors; or
 - (ii) in which a majority of the other directors of the Listed Company have a Significant Shareholding or Material Business Relationship; or
 - (iii) that has a Significant Shareholding in the Listed Company or with which the Listed Company has a Business Connection;
- i. I am / am not a director of another company,
 - (i) in which a majority of the other directors of the Listed Company are employed or are directors; or
 - (ii) that has a Business Connection in the Listed Company or a Significant Shareholding;

- j. I have / do not have a Material Business Relationship or a Significant Shareholding in another company or business,
 - (i) in which a majority of the other directors of the Listed Company are employed or are directors; and/or
 - (ii) which has a Business Connection with the Listed Company or Significant Shareholding in the same;

- k. Disclosure of such other information which the applicant believes could reasonably be construed to have a bearing on the independence of such director.

*** *Listed Company as referred to in this clause shall be the listed company to the board of which the director is appointed and would include any parent or subsidiary company of the Listed Company and any subsidiary of the parent company.***

Sworn/ affirmed by ... (name of deponent)
on this day of.....
at ... (place of attestation.....)

Before me
Justice of the Peace/
Commissioner for Oaths