

COMPLIANCES APPLICABLE TO A MATERIAL SUBSIDIARY OF A LISTED COMPANY

Definition of Material Subsidiary (Regulation 16(1) (c))

A subsidiary is considered material if:

- Its **Turnover or net worth exceeds 10% of the consolidated Turnover or net worth** of the listed entity and its subsidiaries during the immediately preceding accounting year.

KEY COMPLIANCES:

1. Regulation 24 (SEBI LODR): Corporate Governance Requirements

a. Composition of Board in Material Subsidiary

- i. At least **one Independent Director** of the listed entity must be a director on the board of the unlisted material subsidiary.

b. Approval of Special Resolution for Sale/Disposal of Assets

- The listed company **cannot sell or dispose** of shares or assets of a material subsidiary:
 - If such a transaction reduces the listed entity's shareholding to **less than 50%**, or
 - Results in the subsidiary losing its **status as a subsidiary**,

Without **a special resolution** in its general meeting.

c. Restriction on Disposal of Assets

- i. The material subsidiary cannot dispose of its significant assets without prior approval of its holding company's shareholders by way of a **special resolution**.

d. Secretarial Audit

- i. Every material unlisted subsidiary incorporated in India is required to undertake **secretarial audit** and include the report in its annual report.

2. Regulation 46 (Website Disclosure)

- Details of the **policy for determining 'Material Subsidiary'** must be disclosed on the website of the listed entity.

3. Regulation 17: Governance Obligations

- The listed company must formulate a policy for determining Material Subsidiaries, approved by its Board.

4. Companies Act, 2013 (Relevant Provisions)

a. Financial Statements (Section 129)

- i. Consolidated financial statements of the listed company must include financials of all subsidiaries (including material subsidiaries).

b. Audit Committee (Section 177)

- i. The Audit Committee of the listed company must review the financial statements, audit reports, and related party transactions of the material subsidiary.

c. Restriction on Loans/Guarantees/Investments (Section 186)

- i. The listed company must ensure compliance with limits and disclosures for loans, guarantees, or investments to/from its material subsidiary.

d. Board's Report (Section 134)

- i. The listed entity's Board Report must include a statement about the performance of material subsidiaries.

e. Significant Transactions

- i. If the material subsidiary enters into significant transactions (exceeding 10% of consolidated income/net worth), it requires review by the Audit Committee.

5. Related Party Transactions

- All related party transactions (RPTs) involving the material subsidiary must comply with **Regulation 23 of SEBI LODR**:
 - Material RPTs require shareholder approval by resolution (threshold: transactions exceeding **Rs. 1,000 crore or 10% of annual consolidated turnover, whichever is lower**).

6. Indian Accounting Standards (Ind AS 110, 112, 24)

- Disclosures and consolidation requirements under applicable Indian Accounting Standards must be adhered to for financial reporting.

7. Dividend Distribution

- Ensure compliance with Section 123 of the Companies Act, 2013, and rules applicable to the declaration of dividends by the material subsidiary.

8. Foreign Exchange Management Act (FEMA), if applicable

- If the material subsidiary is incorporated outside India or deals with foreign currency transactions, ensure compliance with FEMA regulations.