

SES PROXY ADVISORY GUIDELINES UPDATE: #1/2024-25

SES' stance on Auditor appointments in case of Banks

RBI Guidelines for Appointment of Statutory Central Auditors (SCAs)/ Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) requires SCAs/SAs to be appointed for a continuous period of three years. However, the same is subject to the firms satisfying the eligibility norms each year.

In contradiction to above, simultaneously the guideline provides that the Banks must obtain prior approval of RBI annually.

The legal provision clearly states that the appointment of SCAs will have to be for a continuous period of three years only. And RBI has given a rationale for the same viz., "--to protect the independence of the auditors/audit firms--"

The differing practices across banking sector were a point of concern for SES, although SES was taking it lightly as RBI was eventually the final authority. For SES, it is impossible to comprehend that Regulator was unconcerned and had no issues with appointment of auditors for 1 year or 3 year. It appeared that RBI was agnostic to term of 1 or 3 year, which itself is violation of its own guidelines in letter as well spirit.

Both cannot be acceptable to RBI (1 year or 3 year), either has to be wrong. Since the problem was not flagged by any bank till now, SES decided to flag it and start recommending AGAINST on all resolutions where Bank and RBI both are not following 3-year cycle.

SES considered the problems faced by banks and asked a question, what can banks do if RBI approves appointment for one year only? Can shareholders approve a term that goes beyond what RBI has approved? On the other hand, if approval is sought for an annual basis, then, the same is technically non-compliant with the letter of the RBI Guidelines as it stands today.

It is to be noted that till now, SES was not raising concern on the above issue. However, with time, SES has observed that presently there lies a confusion amongst banks whereby certain Banks are seeking shareholders' approval for three years whereas other Banks are seeking approval for one year only.

Consequently, the auditor approval mechanism has become inconsistent across the industry which definitely would not be the intent of the regulator.

SES is certain that most banks are facing this issue. Herein, lies SES dilemma. Should SES recommend voting "AGAINST" or to vote "FOR"? IF SES says vote FOR, in that case SES will be failing in its duty of highlighting problems that Banks are facing. And, if SES recommends to vote AGAINST, the message will reach to many knowledgeable people and they may be able to impress upon RBI that there lies a discrepancy which needs to be resolved.

SES has also considered a what if situation? What if, investors vote AGAINST and resolution is defeated? SES is relying on the wisdom of investors, who are knowledgeable enough, who uses SES research as a supplement and decide in a holistic manner. All these knowledgeable investors should understand that banks, in this case, are not at fault.

Hence, effective from August 15, 2024, SES will be recommending "AGAINST" auditors' appointments proposed by the Banks with the sole intent of there being a necessary resolution to the technical discrepancy which will be in the best interests of the Banks, Shareholders and all the Stakeholders involved.

Effective Date:	Circulation:
With immediate effect from August 15, 2024	All Listed Companies in SES coverage and all SES clients