



CIRCULAR

CIR/CFD/POLICY CELL/2/2014

April 17, 2014

To  
All Recognised Stock Exchanges

Dear Sir(s)/Madam(s),

**Sub: Corporate Governance in listed entities - Amendments to Clauses 35B and 49 of the Equity Listing Agreement**

1. Please refer to master circular No. SEBI/CFD/DIL/CG/2004/12/10 dated October 29, 2004 on Clause 49 of the Equity Listing Agreement.
2. The Companies Act, 2013 was enacted on August 30, 2013 which provides for a major overhaul in the Corporate Governance norms for all companies. The rules pertaining to Corporate Governance were notified on March 27, 2014. The requirements under the Companies Act, 2013 and the rules notified there under would be applicable for every company or a class of companies (both listed and unlisted) as may be provided therein. It has been decided to review the provisions of the Listing Agreement in this regard with the objectives to align with the provisions of the Companies Act, 2013, adopt best practices on corporate governance and to make the corporate governance framework more effective.
3. The full text of the revised Clause 35B of the Equity Listing Agreement is given in **Part-A** of the circular. The full text of the revised Clause 49 of the Equity Listing Agreement is given in **Part-B** of the circular.
4. **Applicability**
  - 4.1 The revised Clause 49 would be applicable to all listed companies with effect from October 01, 2014. However, the provisions of Clause 49(VI)(C) as given in Part-B shall be applicable to top 100 listed companies by market capitalisation as at the end of the immediate previous financial year.
  - 4.2 The provisions of Clause 49(VII) as given in Part-B shall be applicable to all prospective transactions. All existing material related party contracts or arrangements as on the date of this circular which are likely to continue beyond March 31, 2015 shall be placed for approval of the shareholders in the first General Meeting subsequent to October 01, 2014. However, a company may choose to get such contracts approved by the shareholders even before October 01, 2014.



- 4.3 For other listed entities which are not companies, but body corporate or are subject to regulations under other statutes (e.g. banks, financial institutions, insurance companies etc.), the Clause 49 will apply to the extent that it does not violate their respective statutes and guidelines or directives issued by the relevant regulatory authorities. The Clause 49 is not applicable to Mutual Funds.
- 4.4 The revised Clause 35B would be applicable to all listed companies and the modalities would be governed by the provisions of Companies (Management and Administration) Rules, 2014. Circular No. CIR/CFD/DIL/6/2012 dated July 13, 2012 stands amended to that extent.
5. The monitoring cell formed by the Stock Exchanges in terms of Circular No. CIR/CFD/POLICYCELL/13/2013 dated November 18, 2013 shall also monitor the compliance with the provisions of the revised Clause 49 on corporate governance for all listed companies. The cell shall ascertain the adequacy and accuracy of disclosures in the quarterly compliance reports received from the companies and shall submit a consolidated compliance report to SEBI within 60 days from the end of each quarter.
6. The above listing conditions are specified in exercise of the powers conferred under Section 11 read with Section 11A of the Securities and Exchange Board of India Act, 1992. The said listing conditions should form part of the existing Equity Listing Agreement of the Stock Exchange.
7. All Stock Exchanges are advised to ensure compliance with this circular and carry out the amendments to their Listing Agreement as per Part-A and Part-B of this circular.
8. This master circular will supersede all other earlier circulars issued by SEBI on Clauses 35B and 49 of the Equity Listing Agreement.
9. This circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) under the categories "Legal Framework" and "Issues and Listing".

Yours faithfully,

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**Enclosures:**

- Part-A: Clause 35B of the Equity Listing Agreement**  
**Part-B: Clause 49 of the Equity Listing Agreement**



**Clause 35B**

35B. (i) The issuer agrees to provide e-voting facility to its shareholders, in respect of all shareholders' resolutions, to be passed at General Meetings or through postal ballot. Such e-voting facility shall be kept open for such period specified under the Companies (Management and Administration) Rules, 2014 for shareholders to send their assent or dissent.

(ii) Issuer shall continue to enable those shareholders, who do not have access to e-voting facility, to send their assent or dissent in writing on a postal ballot as per the provisions of the Companies (Management and Administration) Rules, 2014 or amendments made thereto.

(iii) Issuer shall utilize the service of any one of the agencies providing e-voting platform, which is in compliance with conditions specified by the Ministry of Corporate Affairs, Government of India, from time to time.

(iv) Issuer shall mention the Internet link of such e-voting platform in the notice to their shareholders

**49. Corporate Governance**

- I. The company agrees to comply with the provisions of Clause 49 which shall be implemented in a manner so as to achieve the objectives of the principles as mentioned below. In case of any ambiguity, the said provisions shall be interpreted and applied in alignment with the principles.

**A. The Rights of Shareholders**

1. The company should seek to protect and facilitate the exercise of shareholders' rights.
  - a. Shareholders should have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes.
  - b. Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings.
  - c. Shareholders should be informed of the rules, including voting procedures that govern general shareholder meetings.
  - d. Shareholders should have the opportunity to ask questions to the board, to place items on the agenda of general meetings, and to propose resolutions, subject to reasonable limitations.
  - e. Effective shareholder participation in key Corporate Governance decisions, such as the nomination and election of board members, should be facilitated.
  - f. The exercise of ownership rights by all shareholders, including institutional investors, should be facilitated.
  - g. The Company should have an adequate mechanism to address the grievances of the shareholders.
  - h. Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress.
2. The company should provide adequate and timely information to shareholders.



- a. Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be discussed at the meeting.
  - b. Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.
  - c. All investors should be able to obtain information about the rights attached to all series and classes of shares before they purchase.
3. The company should ensure equitable treatment of all shareholders, including minority and foreign shareholders.
- a. All shareholders of the same series of a class should be treated equally.
  - b. Effective shareholder participation in key Corporate Governance decisions, such as the nomination and election of board members, should be facilitated.
  - c. Exercise of voting rights by foreign shareholders should be facilitated.
  - d. The company should devise a framework to avoid Insider trading and abusive self-dealing.
  - e. Processes and procedures for general shareholder meetings should allow for equitable treatment of all shareholders.
  - f. Company procedures should not make it unduly difficult or expensive to cast votes.

## **B. Role of stakeholders in Corporate Governance**

1. The company should recognise the rights of stakeholders and encourage co-operation between company and the stakeholders.
  - a. The rights of stakeholders that are established by law or through mutual agreements are to be respected.
  - b. Stakeholders should have the opportunity to obtain effective redress for violation of their rights.



- c. Company should encourage mechanisms for employee participation.
- d. Stakeholders should have access to relevant, sufficient and reliable information on a timely and regular basis to enable them to participate in Corporate Governance process.
- e. The company should devise an effective whistle blower mechanism enabling stakeholders, including individual employees and their representative bodies, to freely communicate their concerns about illegal or unethical practices.

### **C. Disclosure and transparency**

- 1. The company should ensure timely and accurate disclosure on all material matters including the financial situation, performance, ownership, and governance of the company.
  - a. Information should be prepared and disclosed in accordance with the prescribed standards of accounting, financial and non-financial disclosure.
  - b. Channels for disseminating information should provide for equal, timely and cost efficient access to relevant information by users.
  - c. The company should maintain minutes of the meeting explicitly recording dissenting opinions, if any.
  - d. The company should implement the prescribed accounting standards in letter and spirit in the preparation of financial statements taking into consideration the interest of all stakeholders and should also ensure that the annual audit is conducted by an independent, competent and qualified auditor.

### **D. Responsibilities of the Board**

- 1. Disclosure of Information
  - a. Members of the Board and key executives should be required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the company.



- b. The Board and top management should conduct themselves so as to meet the expectations of operational transparency to stakeholders while at the same time maintaining confidentiality of information in order to foster a culture for good decision-making.

## 2. Key functions of the Board

The board should fulfill certain key functions, including:

- a. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestments.
- b. Monitoring the effectiveness of the company's governance practices and making changes as needed.
- c. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.
- d. Aligning key executive and board remuneration with the longer term interests of the company and its shareholders.
- e. Ensuring a transparent board nomination process with the diversity of thought, experience, knowledge, perspective and gender in the Board.
- f. Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.
- g. Ensuring the integrity of the company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
- h. Overseeing the process of disclosure and communications.
- i. Monitoring and reviewing Board Evaluation framework.



3. Other responsibilities

- a. The Board should provide the strategic guidance to the company, ensure effective monitoring of the management and should be accountable to the company and the shareholders.
- b. The Board should set a corporate culture and the values by which executives throughout a group will behave.
- c. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.
- d. The Board should encourage continuing directors training to ensure that the Board members are kept up to date.
- e. Where Board decisions may affect different shareholder groups differently, the Board should treat all shareholders fairly.
- f. The Board should apply high ethical standards. It should take into account the interests of stakeholders.
- g. The Board should be able to exercise objective independent judgement on corporate affairs.
- h. Boards should consider assigning a sufficient number of non-executive Board members capable of exercising independent judgement to tasks where there is a potential for conflict of interest.
- i. The Board should ensure that, while rightly encouraging positive thinking, these do not result in over-optimism that either leads to significant risks not being recognised or exposes the company to excessive risk.
- j. The Board should have ability to 'step back' to assist executive management by challenging the assumptions underlying: strategy, strategic initiatives (such as acquisitions), risk appetite, exposures and the key areas of the company's focus.
- k. When committees of the board are established, their mandate, composition and working procedures should be well defined and disclosed by the board.





- I. Board members should be able to commit themselves effectively to their responsibilities.
- m. In order to fulfil their responsibilities, board members should have access to accurate, relevant and timely information.
- n. The Board and senior management should facilitate the Independent Directors to perform their role effectively as a Board member and also a member of a committee.

## II. Board of Directors

### A. Composition of Board

1. The Board of Directors of the company shall have an optimum combination of executive and non-executive directors with at least one woman director and not less than fifty percent of the Board of Directors comprising non-executive directors.
2. Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise independent directors and in case the company does not have a regular non-executive Chairman, at least half of the Board should comprise independent directors.

Provided that where the regular non-executive Chairman is a promoter of the company or is related to any promoter or person occupying management positions at the Board level or at one level below the Board, at least one-half of the Board of the company shall consist of independent directors.

**Explanation:** For the purpose of the expression “related to any promoter” referred to in sub-clause (2):

- i. If the promoter is a listed entity, its directors other than the independent directors, its employees or its nominees shall be deemed to be related to it;
- ii. If the promoter is an unlisted entity, its directors, its employees or its nominees shall be deemed to be related to it.”

## B. Independent Directors

1. For the purpose of the clause A, the expression 'independent director' shall mean a non-executive director, other than a nominee director of the company:
  - a. who, in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience;
  - b. (i) who is or was not a promoter of the company or its holding, subsidiary or associate company;  
  
(ii) who is not related to promoters or directors in the company, its holding, subsidiary or associate company;
  - c. apart from receiving director's remuneration, has or had no pecuniary relationship with the company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;
  - d. none of whose relatives has or had pecuniary relationship or transaction with the company, its holding, subsidiary or associate company, or their promoters, or directors, amounting to two per cent. or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;
  - e. who, neither himself nor any of his relatives —
    - (i) holds or has held the position of a key managerial personnel or is or has been employee of the company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;
    - (ii) is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of —
      - (A) a firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or



(B) any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to ten per cent or more of the gross turnover of such firm;

(iii) holds together with his relatives two per cent or more of the total voting power of the company; or

(iv) is a Chief Executive or director, by whatever name called, of any non-profit organisation that receives twenty-five per cent or more of its receipts from the company, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent or more of the total voting power of the company;

(v) is a material supplier, service provider or customer or a lessor or lessee of the company;

f. who is less than 21 years of age.

### **Explanation**

For the purposes of the sub-clause (1):

- i. "Associate" shall mean a company which is an "associate" as defined in Accounting Standard (AS) 23, "Accounting for Investments in Associates in Consolidated Financial Statements", issued by the Institute of Chartered Accountants of India.
- ii. "Key Managerial Personnel" shall mean "Key Managerial Personnel" as defined in section 2(51) of the Companies Act, 2013.
- iii. "Relative" shall mean "relative" as defined in section 2(77) of the Companies Act, 2013 and rules prescribed there under.

## **2. Limit on number of directorships**

- a. A person shall not serve as an independent director in more than seven listed companies.
- b. Further, any person who is serving as a whole time director in any listed company shall serve as an independent director in not more than three listed companies.



### **3. Maximum tenure of Independent Directors**

- a. An independent director shall hold office for a term up to five consecutive years on the Board of a company and shall be eligible for reappointment for another term of up to five consecutive years on passing of a special resolution by the company.

Provided that a person who has already served as an independent director for five years or more in a company as on October 1, 2014 shall be eligible for appointment, on completion of his present term, for one more term of up to five years only.

Provided further that an independent director, who completes his above mentioned term shall be eligible for appointment as independent director in the company only after the expiration of three years of ceasing to be an independent director in the company.

### **4. Formal letter of appointment to Independent Directors**

- a. The company shall issue a formal letter of appointment to independent directors in the manner as provided in the Companies Act, 2013.
- b. The letter of appointment along with the detailed profile of independent director shall be disclosed on the websites of the company and the Stock Exchanges not later than one working day from the date of such appointment.

### **5. Performance evaluation of Independent Directors**

- a. The Nomination Committee shall lay down the evaluation criteria for performance evaluation of independent directors.
- b. The company shall disclose the criteria for performance evaluation, as laid down by the Nomination Committee, in its Annual Report.
- c. The performance evaluation of independent directors shall be done by the entire Board of Directors (excluding the director being evaluated).
- d. On the basis of the report of performance evaluation, it shall be determined whether to extend or continue the term of appointment of the independent director.

## 6. Separate meetings of the Independent Directors

- a. The independent directors of the company shall hold at least one meeting in a year, without the attendance of non-independent directors and members of management. All the independent directors of the company shall strive to be present at such meeting.
- b. The independent directors in the meeting shall, *inter-alia*:
  - i. review the performance of non-independent directors and the Board as a whole;
  - ii. review the performance of the Chairperson of the company, taking into account the views of executive directors and non-executive directors;
  - iii. assess the quality, quantity and timeliness of flow of information between the company management and the Board that is necessary for the Board to effectively and reasonably perform their duties.

## 7. Training of Independent Directors

- a. The company shall provide suitable training to independent directors to familiarize them with the company, their roles, rights, responsibilities in the company, nature of the industry in which the company operates, business model of the company, etc.
- b. The details of such training imparted shall be disclosed in the Annual Report.

## C. Non-executive Directors' compensation and disclosures

All fees / compensation, if any paid to non-executive directors, including independent directors, shall be fixed by the Board of Directors and shall require previous approval of shareholders in general meeting. The shareholders' resolution shall specify the limits for the maximum number of stock options that can be granted to non-executive directors, in any financial year and in aggregate.

Provided that the requirement of obtaining prior approval of shareholders in general meeting shall not apply to payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 2013 for payment of sitting fees without approval of the Central Government.

Provided further that independent directors shall not be entitled to any stock option.

**D. Other provisions as to Board and Committees**

1. The Board shall meet at least four times a year, with a maximum time gap of one hundred and twenty days between any two meetings. The minimum information to be made available to the Board is given in **Annexure - X to the Listing Agreement**.
2. A director shall not be a member in more than ten committees or act as Chairman of more than five committees across all companies in which he is a director. Furthermore, every director shall inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

**Explanation:**

- i. For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies and companies under Section 8 of the Companies Act, 2013 shall be excluded.
  - ii. For the purpose of reckoning the limit under this sub-clause, Chairmanship / membership of the Audit Committee and the Stakeholders' Relationship Committee alone shall be considered.
3. The Board shall periodically review compliance reports of all laws applicable to the company, prepared by the company as well as steps taken by the company to rectify instances of non-compliances.
  4. An independent director who resigns or is removed from the Board of the Company shall be replaced by a new independent director at the earliest but not later than the immediate next Board meeting or three months from the date of such vacancy, whichever is later.
  5. Provided that where the company fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director shall not apply.
  6. The Board of the company shall satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management.



#### **E. Code of Conduct**

1. The Board shall lay down a code of conduct for all Board members and senior management of the company. The code of conduct shall be posted on the website of the company.
2. All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the company shall contain a declaration to this effect signed by the CEO.
3. The Code of Conduct shall suitably incorporate the duties of Independent Directors as laid down in the Companies Act, 2013.
4. An independent director shall be held liable, only in respect of such acts of omission or commission by a company which had occurred with his knowledge, attributable through Board processes, and with his consent or connivance or where he had not acted diligently with respect of the provisions contained in the Listing Agreement.

**Explanation:** For this purpose, the term “senior management” shall mean personnel of the company who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of management one level below the executive directors, including all functional heads.

#### **F. Whistle Blower Policy**

1. The company shall establish a vigil mechanism for directors and employees to report concerns about unethical behaviour, actual or suspected fraud or violation of the company’s code of conduct or ethics policy.
2. This mechanism should also provide for adequate safeguards against victimization of director(s) / employee(s) who avail of the mechanism and also provide for direct access to the Chairman of the Audit Committee in exceptional cases.
3. The details of establishment of such mechanism shall be disclosed by the company on its website and in the Board’s report.

### III. Audit Committee

#### A. Qualified and Independent Audit Committee

A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following:

1. The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors.
2. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

**Explanation (i):** The term “financially literate” means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

**Explanation (ii):** A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

3. The Chairman of the Audit Committee shall be an independent director;
4. The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries;
5. The Audit Committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee;
6. The Company Secretary shall act as the secretary to the committee.

#### B. Meeting of Audit Committee

The Audit Committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members



or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.

### **C. Powers of Audit Committee**

The Audit Committee shall have powers, which should include the following:

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers necessary.

### **D. Role of Audit Committee**

The role of the Audit Committee shall include the following:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
2. Recommendation for appointment, remuneration and terms of appointment of auditors of the company;
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors;
4. Reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:
  - a. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (c) of sub-section 3 of section 134 of the Companies Act, 2013
  - b. Changes, if any, in accounting policies and practices and reasons for the same



- c. Major accounting entries involving estimates based on the exercise of judgment by management
  - d. Significant adjustments made in the financial statements arising out of audit findings
  - e. Compliance with listing and other legal requirements relating to financial statements
  - f. Disclosure of any related party transactions
  - g. Qualifications in the draft audit report
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval;
  6. Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter;
  7. Review and monitor the auditor's independence and performance, and effectiveness of audit process;
  8. Approval or any subsequent modification of transactions of the company with related parties;
  9. Scrutiny of inter-corporate loans and investments;
  10. Valuation of undertakings or assets of the company, wherever it is necessary;
  11. Evaluation of internal financial controls and risk management systems;
  12. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
  13. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;



14. Discussion with internal auditors of any significant findings and follow up there on;
15. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;
16. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
17. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;
18. To review the functioning of the Whistle Blower mechanism;
19. Approval of appointment of CFO (i.e., the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience and background, etc. of the candidate;
20. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

**Explanation (i):** The term "related party transactions" shall have the same meaning as provided in Clause 49(VII) of the Listing Agreement.

#### **E. Review of information by Audit Committee**

The Audit Committee shall mandatorily review the following information:

1. Management discussion and analysis of financial condition and results of operations;
2. Statement of significant related party transactions (as defined by the Audit Committee), submitted by management;
3. Management letters / letters of internal control weaknesses issued by the statutory auditors;
4. Internal audit reports relating to internal control weaknesses; and



5. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.

#### **IV. Nomination and Remuneration Committee**

- A. The company shall set up a nomination and remuneration committee which shall comprise at least three directors, all of whom shall be non-executive directors and at least half shall be independent. Chairman of the committee shall be an independent director.
- B. The role of the committee shall, *inter-alia*, include the following:
  1. Formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration of the directors, key managerial personnel and other employees;
  2. Formulation of criteria for evaluation of Independent Directors and the Board;
  3. Devising a policy on Board diversity;
  4. Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the Board their appointment and removal. The company shall disclose the remuneration policy and the evaluation criteria in its Annual Report.
- C. The Chairman of the nomination and remuneration committee could be present at the Annual General Meeting, to answer the shareholders' queries. However, it would be up to the Chairman to decide who should answer the queries.

#### **V. Subsidiary Companies**

- A. At least one independent director on the Board of Directors of the holding company shall be a director on the Board of Directors of a material non-listed Indian subsidiary company.
- B. The Audit Committee of the listed holding company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company.



- C. The minutes of the Board meetings of the unlisted subsidiary company shall be placed at the Board meeting of the listed holding company. The management should periodically bring to the attention of the Board of Directors of the listed holding company, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary company.
- D. The company shall formulate a policy for determining 'material' subsidiaries and such policy shall be disclosed to Stock Exchanges and in the Annual Report.
- E. For the purpose of this clause, a subsidiary shall be considered as material if the investment of the company in the subsidiary exceeds twenty per cent of its consolidated net worth as per the audited balance sheet of the previous financial year or if the subsidiary has generated twenty per cent of the consolidated income of the company during the previous financial year.
- F. No company shall dispose of shares in its material subsidiary which would reduce its shareholding (either on its own or together with other subsidiaries) to less than 50% or cease the exercise of control over the subsidiary without passing a special resolution in its General Meeting.
- G. Selling, disposing and leasing of assets amounting to more than twenty percent of the assets of the material subsidiary shall require prior approval of shareholders by way of special resolution

**Explanation (i):** The term “material non-listed Indian subsidiary” shall mean an unlisted subsidiary, incorporated in India, whose income or net worth (i.e. paid up capital and free reserves) exceeds 20% of the consolidated income or net worth respectively, of the listed holding company and its subsidiaries in the immediately preceding accounting year.

**Explanation (ii):** The term “significant transaction or arrangement” shall mean any individual transaction or arrangement that exceeds or is likely to exceed 10% of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the material unlisted subsidiary for the immediately preceding accounting year.

**Explanation (iii):** Where a listed holding company has a listed subsidiary which is itself a holding company, the above provisions shall apply to the listed subsidiary insofar as its subsidiaries are concerned.



## VI. Risk Management

- A. The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures.
- B. The Board shall be responsible for framing, implementing and monitoring the risk management plan for the company.
- C. The company shall also constitute a Risk Management Committee. The Board shall define the roles and responsibilities of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit.

## VII. Related Party Transactions

- A. A related party transaction is a transfer of resources, services or obligations between a company and a related party, regardless of whether a price is charged.
- B. A 'related party' is a person or entity that is related to the company. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party, directly or indirectly, in making financial and/or operating decisions and includes the following:
  1. A person or a close member of that person's family is related to a company if that person:
    - a. is a related party under Section 2(76) of the Companies Act, 2013; or
    - b. has control or joint control or significant influence over the company; or
    - c. is a key management personnel of the company or of a parent of the company; or
  2. An entity is related to a company if any of the following conditions applies:
    - a. The entity is a related party under Section 2(76) of the Companies Act, 2013; or
    - b. The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others); or
    - c. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); or
    - d. Both entities are joint ventures of the same third party; or



- e. One entity is a joint venture of a third entity and the other entity is an associate of the third entity; or
- f. The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company. If the company is itself such a plan, the sponsoring employers are also related to the company; or
- g. The entity is controlled or jointly controlled by a person identified in (1).
- h. A person identified in (1)(b) has significant influence over the entity (or of a parent of the entity); or

**Explanation:** For the purpose of Clause 49(V) and Clause VII(B), the term “control” shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

- C. The company shall formulate a policy on materiality of related party transactions and also on dealing with Related Party Transactions.

Provided that a transaction with a related party shall be considered material if the transaction / transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds five percent of the annual turnover or twenty percent of the net worth of the company as per the last audited financial statements of the company, whichever is higher.

- D. All Related Party Transactions shall require prior approval of the Audit Committee.
- E. All material Related Party Transactions shall require approval of the shareholders through special resolution and the related parties shall abstain from voting on such resolutions.

## VIII. Disclosures

### A. Related Party Transactions

- 1. Details of all material transactions with related parties shall be disclosed quarterly along with the compliance report on corporate governance.
- 2. The company shall disclose the policy on dealing with Related Party Transactions on its website and also in the Annual Report.



## **B. Disclosure of Accounting Treatment**

Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction in the Corporate Governance Report.

## **C. Remuneration of Directors**

1. All pecuniary relationship or transactions of the non-executive directors vis-à-vis the company shall be disclosed in the Annual Report.
2. In addition to the disclosures required under the Companies Act, 2013, the following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the Annual Report:
  - a. All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension etc.
  - b. Details of fixed component and performance linked incentives, along with the performance criteria.
  - c. Service contracts, notice period, severance fees.
  - d. Stock option details, if any - and whether issued at a discount as well as the period over which accrued and over which exercisable.
3. The company shall publish its criteria of making payments to non-executive directors in its annual report. Alternatively, this may be put up on the company's website and reference drawn thereto in the annual report.
4. The company shall disclose the number of shares and convertible instruments held by non-executive directors in the annual report.
5. Non-executive directors shall be required to disclose their shareholding (both own or held by / for other persons on a beneficial basis) in the listed company in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director





#### D. Management

1. As part of the directors' report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company's competitive position:
  - a. Industry structure and developments.
  - b. Opportunities and Threats.
  - c. Segment-wise or product-wise performance.
  - d. Outlook
  - e. Risks and concerns.
  - f. Internal control systems and their adequacy.
  - g. Discussion on financial performance with respect to operational performance.
  - h. Material developments in Human Resources / Industrial Relations front, including number of people employed.
  
2. Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (for e.g. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)

**Explanation:** For this purpose, the term "senior management" shall mean personnel of the company who are members of its core management team excluding the Board of Directors). This would also include all members of management one level below the executive directors including all functional heads.

3. The Code of Conduct for the Board of Directors and the senior management shall be disclosed on the website of the company.

#### E. Shareholders

1. In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:
  - a. A brief resume of the director;
  
  - b. Nature of his expertise in specific functional areas;



- c. Names of companies in which the person also holds the directorship and the membership of Committees of the Board; and
  - d. Shareholding of non-executive directors as stated in Clause 49 (IV) (E) (v) above
2. Disclosure of relationships between directors inter-se shall be made in the Annual Report, notice of appointment of a director, prospectus and letter of offer for issuances and any related filings made to the stock exchanges where the company is listed.
  3. Quarterly results and presentations made by the company to analysts shall be put on company's web-site, or shall be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own web-site.
  4. A committee under the Chairmanship of a non-executive director and such other members as may be decided by the Board of the company shall be formed to specifically look into the redressal of grievances of shareholders, debenture holders and other security holders. This Committee shall be designated as 'Stakeholders Relationship Committee' and shall consider and resolve the grievances of the security holders of the company including complaints related to transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends.
  5. To expedite the process of share transfers, the Board of the company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority shall attend to share transfer formalities at least once in a fortnight.

#### **F. Disclosure of resignation of directors**

1. The company shall disclose the letter of resignation along with the detailed reasons of resignation provided by the director of the company on its website not later than one working day from the date of receipt of the letter of resignation.
2. The company shall also forward a copy of the letter of resignation along with the detailed reasons of resignation to the stock exchanges not later than one working day from the date of receipt of resignation for dissemination through its website.



#### **G. Disclosure of formal letter of appointment**

1. The letter of appointment of the independent director along with the detailed profile shall be disclosed on the websites of the company and the Stock Exchanges not later than one working day from the date of such appointment.

#### **H. Disclosures in Annual report**

1. The details of training imparted to Independent Directors shall be disclosed in the Annual Report.
2. The details of establishment of vigil mechanism shall be disclosed by the company on its website and in the Board's report.
3. The company shall disclose the remuneration policy and the evaluation criteria in its Annual Report.

#### **I. Proceeds from public issues, rights issue, preferential issues, etc.**

When money is raised through an issue (public issues, rights issues, preferential issues etc.), the company shall disclose the uses / applications of funds by major category (capital expenditure, sales and marketing, working capital, etc), on a quarterly basis as a part of their quarterly declaration of financial results to the Audit Committee. Further, on an annual basis, the company shall prepare a statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and place it before the audit committee. Such disclosure shall be made only till such time that the full money raised through the issue has been fully spent. This statement shall be certified by the statutory auditors of the company. Furthermore, where the company has appointed a monitoring agency to monitor the utilisation of proceeds of a public or rights issue, it shall place before the Audit Committee the monitoring report of such agency, upon receipt, without any delay. The audit committee shall make appropriate recommendations to the Board to take up steps in this matter.

#### **IX. CEO/CFO certification**

The CEO, i.e. the Managing Director or Manager appointed in terms of the Companies Act, 1956 and the CFO i.e. the whole-time Finance Director or any other person heading the finance function discharging that function shall certify to the Board that:

- A. They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief :



1. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  2. these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- B. There are, to the best of their knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company's code of conduct.
- C. They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.
- D. They have indicated to the auditors and the Audit committee:
1. significant changes in internal control over financial reporting during the year;
  2. significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
  3. instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.

#### **X. Report on Corporate Governance**

- A. There shall be a separate section on Corporate Governance in the Annual Reports of company, with a detailed compliance report on Corporate Governance. Non-compliance of any mandatory requirement of this clause with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted. The suggested list of items to be included in this report is given in **Annexure - XII to the Listing Agreement** and list of non-mandatory requirements is given in **Annexure - XIII to the Listing Agreement**.
- B. The companies shall submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the format given in **Annexure - XI**



to the Listing Agreement. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the company.

## XI. Compliance

- A. The company shall obtain a certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance as stipulated in this clause and annex the certificate with the directors' report, which is sent annually to all the shareholders of the company. The same certificate shall also be sent to the Stock Exchanges along with the annual report filed by the company.
- B. The non-mandatory requirements given in **Annexure - XIII to the Listing Agreement** may be implemented as per the discretion of the company. However, the disclosures of the compliance with mandatory requirements and adoption (and compliance) / non-adoption of the non-mandatory requirements shall be made in the section on corporate governance of the Annual Report.



**Annexure - X to the Listing Agreement**

**Information to be placed before Board of Directors**

1. Annual operating plans and budgets and any updates.
2. Capital budgets and any updates.
3. Quarterly results for the company and its operating divisions or business segments.
4. Minutes of meetings of audit committee and other committees of the board.
5. The information on recruitment and remuneration of senior officers just below the board level, including appointment or removal of Chief Financial Officer and the Company Secretary.
6. Show cause, demand, prosecution notices and penalty notices which are materially important.
7. Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems.
8. Any material default in financial obligations to and by the company, or substantial nonpayment for goods sold by the company.
9. Any issue, which involves possible public or product liability claims of substantial nature, including any judgement or order which, may have passed strictures on the conduct of the company or taken an adverse view regarding another enterprise that can have negative implications on the company.
10. Details of any joint venture or collaboration agreement.
11. Transactions that involve substantial payment towards goodwill, brand equity, or intellectual property.
12. Significant labour problems and their proposed solutions. Any significant development in Human Resources/ Industrial Relations front like signing of wage agreement, implementation of Voluntary Retirement Scheme etc.
13. Sale of material nature, of investments, subsidiaries, assets, which is not in normal course of business.
14. Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.
15. Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer etc.



Annexure - XI to the Listing Agreement

**Format of Quarterly Compliance Report on Corporate Governance**

Name of the Company:

Quarter ending on:

Particulars	Clause of Listing agreement	Compliance Status Yes/No	Remarks
<b>II. Board of Directors</b>	49 (II)		
(A) Composition of Board	49 (IIA)		
(B) Independent Directors	49 (IIB)		
(C) Non-executive Directors' compensation & disclosures	49 (IIC)		
(D) Other provisions as to Board and Committees	49 (IID)		
(E) Code of Conduct	49 (IIE)		
(F) Whistle Blower Policy	49 (IIF)		
<b>III. Audit Committee</b>	49 (III)		
(A) Qualified & Independent Audit Committee	49 (IIIA)		
(B) Meeting of Audit Committee	49 (IIIB)		
(C) Powers of Audit Committee	49 (IIIC)		
(D) Role of Audit Committee	49 (IIID)		
(E) Review of Information by Audit Committee	49 (IIIE)		
<b>IV. Nomination and Remuneration Committee</b>	49 (IV)		
<b>V. Subsidiary Companies</b>	49 (V)		
<b>VI. Risk Management</b>	49 (VI)		
<b>VII. Related Party Transactions</b>	49 (VII)		
<b>VIII. Disclosures</b>	49 (VIII)		
(A) Related party transactions	49 (VIIIA)		
(B) Disclosure of Accounting Treatment	49 (VIIIB)		
(C) Remuneration of Directors	49 (VIII C)		
(D) Management	49 (VIII D)		
(E) Shareholders	49 (VIII E)		
(F) Disclosure of resignation of directors	49 (VIII F)		
(G) Disclosure of formal letter of appointment	49 (VIII G)		
(H) Disclosures in the Annual report	49 (VIII H)		
(I) Proceeds from public issues, rights	49 (VIII I)		



Particulars	Clause of Listing agreement	Compliance Status Yes/No	Remarks
issue, preferential issues, etc			
<b>IX. CEO/CFO Certification</b>	49 (IX)		
<b>X. Report on Corporate Governance</b>	49 (X)		
<b>XI. Compliance</b>	49 (XI)		

**Note:**

1. The details under each head shall be provided to incorporate all the information required as per the provisions of the Clause 49 of the Listing Agreement.
2. In the column No. 3, compliance or non-compliance may be indicated by Yes/No/N.A.. For example, if the Board has been composed in accordance with the Clause 49 I of the Listing Agreement, "Yes" may be indicated. Similarly, in case the company has no related party transactions, the words "N.A." may be indicated against 49(VII).
3. In the remarks column, reasons for non-compliance may be indicated, for example, in case of requirement related to circulation of information to the shareholders, which would be done only in the AGM/EGM, it might be indicated in the "Remarks" column as – "will be complied with at the AGM". Similarly, in respect of matters which can be complied with only where the situation arises, for example, "Report on Corporate Governance" is to be a part of Annual Report only, the words "will be complied in the next Annual Report" may be indicated.





Annexure - XII to the Listing Agreement

**Suggested List of Items to Be Included In the Report on Corporate Governance in the Annual Report of Companies**

1. A brief statement on company's philosophy on code of governance.
2. Board of Directors:
  - a. Composition and category of directors, for example, promoter, executive, nonexecutive, independent non-executive, nominee director, which institution represented as lender or as equity investor.
  - b. Attendance of each director at the Board meetings and the last AGM.
  - c. Number of other Boards or Board Committees in which he/she is a member or Chairperson.
  - d. Number of Board meetings held, dates on which held.
3. Audit Committee:
  - i. Brief description of terms of reference
  - ii. Composition, name of members and Chairperson
  - iii. Meetings and attendance during the year
4. Nomination and Remuneration Committee:
  - i. Brief description of terms of reference
  - ii. Composition, name of members and Chairperson
  - iii. Attendance during the year
  - iv. Remuneration policy
  - v. Details of remuneration to all the directors, as per format in main report.
5. Stakeholders' Grievance Committee:
  - i. Name of non-executive director heading the committee
  - ii. Name and designation of compliance officer
  - iii. Number of shareholders' complaints received so far
  - iv. Number not solved to the satisfaction of shareholders
  - v. Number of pending complaints
6. General Body meetings:
  - i. Location and time, where last three AGMs held.



- ii. Whether any special resolutions passed in the previous 3 AGMs
- iii. Whether any special resolution passed last year through postal ballot – details of voting pattern
- iv. Person who conducted the postal ballot exercise
- v. Whether any special resolution is proposed to be conducted through postal ballot
- vi. Procedure for postal ballot

7. Disclosures:

- i. Disclosures on materially significant related party transactions that may have potential conflict with the interests of company at large.
- ii. Details of non-compliance by the company, penalties, strictures imposed on the company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.
- iii. Whistle Blower policy and affirmation that no personnel has been denied access to the audit committee.
- iv. Details of compliance with mandatory requirements and adoption of the non-mandatory requirements of this clause

8. Means of communication:

- i. Quarterly results
- ii. Newspapers wherein results normally published
- iii. Any website, where displayed
- iv. Whether it also displays official news releases; and
- v. The presentations made to institutional investors or to the analysts.

9. General Shareholder information:

- i. AGM: Date, time and venue
- ii. Financial year
- iii. Date of Book closure
- iv. Dividend Payment Date
- v. Listing on Stock Exchanges
- vi. Stock Code
- vii. Market Price Data: High., Low during each month in last financial year
- viii. Performance in comparison to broad-based indices such as BSE Sensex, CRISIL index etc.
- ix. Registrar and Transfer Agents
- x. Share Transfer System
- xi. Distribution of shareholding
- xii. Dematerialization of shares and liquidity



- xiii. Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity
- xiv. Plant Locations
- xv. Address for correspondence



## Non-Mandatory Requirements

### 1. The Board

The Board - A non-executive Chairman may be entitled to maintain a Chairman's office at the company's expense and also allowed reimbursement of expenses incurred in performance of his duties.

### 2. Shareholder Rights

A half-yearly declaration of financial performance including summary of the significant events in last six-months, may be sent to each household of shareholders.

### 3. Audit qualifications

Company may move towards a regime of unqualified financial statements.

### 4. Separate posts of Chairman and CEO

The company may appoint separate persons to the post of Chairman and Managing Director/CEO.

### 5. Reporting of Internal Auditor

The Internal auditor may report directly to the Audit Committee.