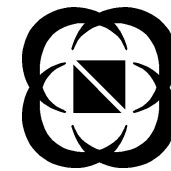


**FAQs**  
**on**  
**Corporate Governance**



**NATIONAL STOCK EXCHANGE  
OF INDIA LIMITED**

**1. What is Corporate Governance?**

Corporations pool capital from a large investor base both in the domestic and in the international capital markets. In this context, investment is ultimately an act of faith in the ability of a corporation's management. When an investor invests money in a corporation, he expects the board and the management to act as trustees and ensure the safety of the capital and also earn a rate of return that is higher than the cost of capital. In this regard, investors expect management to act in their best interests at all times and adopt good administrative practices.

Practices that the Board of Directors of a listed entity follows to fulfill the expectations of all the stakeholders (i.e. Shareholders, employees, creditors, customers, government, regulatory authorities and society at large) is called corporate governance practices. While good practices is rewarded, bad practices are detrimental. SEBI has prescribed a set of good practices vide Clause 49 of the Listing Agreement.

**2. Who is required to comply?**

Existing listed entities (except Mutual Funds) with a paid up share capital of Rs. 3 crores and above or net worth of Rs. 25 crores or more at any time in the history of the company (w.e.f. quarter ending March 31, 2006). Also, entities seeking listing of their securities for the first time.

**3. Is it mandatory for PSUs / other body corporate etc. to comply with the revised Clause 49 of the Listing Agreement?**

The revised Clause 49 is mandatory to comply, not only for companies (including PSUs), but also body corporates (e.g. private and public sector banks, financial institutions, insurance companies etc.) incorporated under other statutes, to the extent that it does not violate their respective statutes and guidelines or directives issued by the relevant regulatory authorities.

**4. How is reporting of compliance of Corporate Governance norms done?**

**Quarterly Report** needs to be submitted to stock exchanges within 15 days from the close of quarter, which is required to be signed by the CEO/Compliance Officer.

**Annual Report** must contain a separate section on Corporate Governance. Non-compliance of any mandatory requirement need to be explained and adoption of non-mandatory requirements need to be specifically highlighted.

**5. What should be the composition of the Board?**

It should have optimum combination of Executive and Non-Executive Directors. Directors involved in day-to-day operations of a Company, are Executive Directors. For example, Managing Director/ Whole-Time Director.

**6. What is the frequency of Board meetings?**

The Board shall meet at least 4 times a year with a maximum gap of 4 months between any two meetings.

**Example:**

Meeting Number	Meeting held on	Last date by which next meeting must be held
1	12-Jan-06	11-May-06
2	5-May-06	4-Sep-06
3	25-Aug-06	24-Dec-06

**7. How can the Board conduct a periodic review of the compliance reports?**

The Board may periodically review the compliance reports by ensuring that:

- a. the company has a legal compliance reporting system which deals with all the laws applicable to the company
- b. initial compliance reports from executives are obtained at operating levels
- c. the Company Secretary has submitted the consolidated compliance report to the Managing Director / Wholetime Director / Chief Executive Officer, and the same is placed periodically to the Board

**8. Who is an Independent Director?**

An Independent Director is Non-Executive Director who apart from receiving director's remuneration does not have any relationships with the company or its promoters. An Independent Director is not related to promoters or persons in the management or at one level below and has not been an executive of the company in the last three financial years. Clause 49(I)(A)(iii) of listing agreement gives traits of an Independent Director.

**9. How many Independent Directors should be there on Board?**

If the Chairman of the Board is a Non-Executive Director, then at least 1/3<sup>rd</sup> of the Board should comprise of Independent Directors.

If the Chairman of the Board is an Executive Director, then at least 1/2 of the Board should comprise of Independent Directors.

**Example:**

<i>Total Number of Members on the Board = 11</i>		
<b>Chairman</b>	<b>Minimum Number of Independent Directors Required</b>	<b>Ratio</b>
<b>IF Executive</b>	6	1/2
<b>IF Non-Executive</b>	4	1/3

**10. What are the major due diligences that must be ensured by a Director?**

- a. Informing the company about the number of committees in which he/she is director and/or chairman
- b. Ensuring that the number of committees in which he/she is Director is restricted to 10 & in which he/she is Chairman is restricted to 5.
- c. Updating the company about the entry / exit of any committee membership / chairmanship

**11. What is the scope / responsibilities of the CEO/CFO?**

**CEO** (MD or Manager)/ **CFO** (Whole Time Director- Finance) shall review the financial statements for the year to ensure that there are no transactions which are fraudulent/illegal/violative of the company's code of conduct, since it is their responsibility for establishing and maintaining internal control.

**12. What are the important risk management disclosure requirements under clause 49 to the Board?**

The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures

**13. What is Audit Committee?**

Audit committee is a committee of Board of Directors of a company who looks into the financial reporting process/information to ensure that the financial statements are correct, sufficient and credible. The Audit Committee also conducts the Management discussion and analysis of financial condition, analysis of related party transactions and reviews Internal control weaknesses and corresponding internal audit reports.

**14. What is the composition of an Audit Committee?**

Including the Chairman, 2/3<sup>rd</sup> of the members should be Independent Directors, with atleast 3 members forming a part of the Audit Committee. All members must be financially literate and one member must be financial expert.

**15. What are the norms for conducting Audit Committee meetings?**

The audit committee should meet at least four times in a year, with 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. There should be a minimum of two independent members present at the meetings of audit committee.

**16. What are the powers of an Audit committee?**

An Audit Committee can investigate any activity (within its terms of reference), seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

**17. What are the important disclosure requirements under Clause 49 to the Audit Committee?**

**a. Related party transactions:**

Certain specified transactions with related parties shall be placed before the audit committee.

**b. Public issues, rights issues, preferential issues etc:**

- **Quarterly disclosures:** When money is raised through an issue (public issues, rights issues, preferential issues etc.), Audit Committee shall be given disclosures as to the uses/ applications of funds on a quarterly basis.
- **Annual disclosures:** 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.

**18. What is shareholders grievance committee?**

It is a Board Committee which specifically looks into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. The Chairman of the Committee should be a Non-Executive Director.

**19. What are the requirements as to code of conduct?**

The Board of Directors of a company shall lay down a code of conduct for all Board Members & Senior Management, who in turn shall affirm compliance with the code on an annual basis. The Code of conduct shall be posted on the website of the company.

**20. Which personnel of the company are eligible to be considered under the head 'Senior Management'?**

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.

**21. What are the important disclosure requirements under Clause 49 to the Annual Report?**

**a. Remuneration of Directors:**

All pecuniary relationship or transactions of the non-executive directors vis-à-vis the company shall be disclosed in the Annual Report.

**b. Management Discussion and Analysis report [MDAR]:**

As part of the directors' report or as an addition thereto, MDAR with certain specified disclosures should form part of the Annual Report to the shareholders

**22. What are the other important disclosure requirements under Clause 49?**

**a. 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

**b. Miscellaneous requirements:**

- In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with some specified information about the directors.
- Quarterly results, presentations made by the company to analysts etc. shall be put on company's web-site or shall be sent to the Exchange 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.

- 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 RTA. The delegated authority shall attend to share transfer formalities at least once in a fortnight.

**23. What are the compliance requirements for a company w.r.t. its subsidiary company(ies)?**

One of the basic requirements is that atleast one Independent Director on the Board of the holding company shall be a Director on the Board of its material non-listed Indian subsidiary company. In addition, the Audit Committee of the listed holding company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company. The minutes of the Board meetings of the unlisted subsidiary company shall be placed at the Board meeting of the listed holding company.

**24. What are the areas of discussion to be covered through the MDAR?**

The Management Discussion & Analysis (MDAR) should include discussion on matters within the limits set by the company's competitive position, such as; Industry structure and developments, Opportunities and Threats, Segment-wise or product-wise performance, Outlook, Risks and concerns, Internal control systems and their adequacy, Discussion on financial performance with respect to operational performance and Material developments in Human Resources / Industrial Relations front, including number of people employed.

**Disclaimer**

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