

**ANNEXURE - I**

**CORPORATE GOVERNANCE IN INDIA: CURRENT STATUS  
& RECOMMENDATIONS**

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
<b>BOARD ISSUES</b>	
<b>Responsibility of the Board</b>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>The board should fulfil certain key functions, such as (i) reviewing and guiding corporate strategy, risk policy, annual budget and business plans, setting performance objectives, monitoring corporate performance and overseeing major capital expenditures and acquisitions; (ii) selecting, compensating and monitoring key executives; (iii) reviewing key executive and board remuneration; (iv) monitoring and managing potential conflicts of interest of management, board members and shareholders; (v) ensuring the integrity of corporation’s accounting and financial reporting systems; (vi) monitoring the effectiveness of the governance practices; and (vii) overseeing the process of disclosure and communications.</p> <p><b>BIS</b></p> <p>Bank boards should establish strategic objectives and set corporate values that will direct the ongoing activities of the bank. The board should ensure that senior management implements policies that prohibit activities and relationships that diminish the quality of corporate governance, such as conflicts of interest, self-dealing and preferential dealings with related parties. Board should set and enforce clear lines of responsibility and accountability throughout the organisation. Keeping in view their oversight role board of directors should feel empowered to recommend sound practices, provide dispassionate advice, and avoid conflict of interests.</p> <p><i>LSE Combined Code</i></p> <p>Every listed company should be headed by an effective board which should lead and control the company.</p> <p><i>SEBI</i></p> <p>The board of directors of a company directs and controls the management of a company. The day-to-day management of the company is the responsibility of the management.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies</i></p> <p>The board of directors is the ultimate governing body of a company. It enjoys extensive powers as provided under the Companies Act and the company’s Articles. Some of these powers are exercisable at board meetings while others require the consent of the shareholders.</p> <p>Directors, who are appointed as fiduciaries of the company, are “expected to display the utmost good faith towards the company</p>

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	<p>whether their dealings are with the company or on behalf of the company”. (S.291)</p> <p>The board may, through a resolution, delegate its powers to the managers. However, it remains the duty of the board to set out limits to the powers delegated to management. The board should not act negligently in the management of the company’s affairs.</p> <p>The board of directors must disclose their interest in any transactions of the company. Board’s sanction is required for certain contracts in which particular directors are interested. They must avoid conflicts of interests in their duties and obligations to the company.</p> <p>The board is responsible for signing of the company’s balance sheet and profit and loss statement and for ensuring that these documents are filed with the Registrar and sent to shareholders. The board must provide the directors’ report attached to the annual report to the shareholders and ensure the accuracy of statements made therein. The directors are liable for their statements made in the directors’ report.</p> <p><b><i>Banks</i></b></p> <p>Some banks articulate corporate values, codes of conduct and standards of appropriate behaviour, etc. Some of them have also well-articulated corporate strategy decided by the board of directors. In pursuance thereof, performance budgeting system is followed, which measures, monitors and evaluates corporate success and the contribution of business units.</p> <p>The mechanism for interaction and co-operation among the board of directors, senior management and the auditors of the bank is fairly well established.</p> <p>Section 20 of BR Act, 1949 prohibits loans and advances to directors or to any firm or company in which directors are interested or loans to individuals in respect of whom any of its directors is a partner or guarantor. Disclosure of interest by directors is mandatory and in case there is any likelihood of conflict of interest arising, the concerned director is required to abstain from participating in the decision-making process relating to that case.</p> <p>The boards generally perform the function of providing “check and balance” to the management. However, all members of the boards individually may not be said to be conducting themselves as ideally as envisaged.</p> <p>RBI has issued a circular regarding Do’s and Don’ts for the directors of banks on March 9, 1992.</p> <p><b><i>Public Sector Companies</i></b></p> <p>Most of the provisions in the Companies Act regarding role/responsibility of the Board also apply to the Government companies. The only exception being Section 297, which states that the ‘Board’s sanction is required for certain contracts in which particular directors are interested’.</p> <p>In addition, the Department of Public Enterprises (DPE) has specified the following:</p>

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	<p>1. Board of Directors of all non-financial PSUs should ensure that decisions regarding investment of funds are transparent and taken only by the delegated authority, and that the proper exercise of such authority is monitored by the Board. Boards of all PSUs are directed to lay down clear policies on investment of surplus funds, establish transparent procedures, review delegation of authority and prescribe regular reporting of investments to the Board. The Administrative Ministry gives guidance to the Board in laying down policies and procedures. The Administrative Ministry in turn is guided by the DPE and the Ministry of Finance. The latter closely follow up the implementation of the policies on investment laid down by these Ministries.</p> <p>2. Wherever the company is headed by a part time chairman the part-time Chairman should guide the board of directors in the discharge of the role entrusted to them in respect of formulating corporate policy and the corporate plan, their implementation and evaluation with a view to improving the enterprise's performance. The part-time Chairman, however, cannot issue directives as the management of public enterprises is vested under the Companies Act with its Board of Directors.</p> <p>3. As Chairman of the Board of Directors, the part-time Chairman will also evaluate the work of the Chief Executive in implementing the policies laid down by the Board for improving the enterprise's performance.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies</i></p> <p>As in OECD Principles, the responsibility of the board should be clearly defined to include following key functions: (i) reviewing and guiding corporate strategy, risk policy, annual budget and business plans, setting performance objectives, monitoring corporate performance and overseeing major capital expenditures and acquisitions; (ii) selecting, compensating and monitoring key executives; (iii) reviewing key executive and board remuneration; (iv) monitoring and managing potential conflicts of interest of management, board members and shareholders; (v) ensuring the integrity of corporation's accounting and financial reporting systems; (vi) monitoring the effectiveness of the governance practices; and (vii) overseeing the process of disclosure and communications.</p> <p>Though law provides safeguards to shareholders, it is well known that directors' duties are often followed in letter but not in spirit. The board of directors needs to look into improving the quality of information, which they provide to shareholders. The balance sheet is prepared to meet only statutory requirements. It is not much helpful from average shareholders' point of view. About 6-8 pages should be added to enlighten the shareholder about the performance of the company in relation to last couple of years, with reference to other companies in the same/similar industry as also with reference to the industry as a whole. Consolidated accounts incorporating performance of subsidiaries and performance of various divisions of the company should be presented.</p>

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	<p><b><i>Banks</i></b></p> <p>Even in respect of banks, the responsibility of the board should be clearly defined as in the case of other companies.</p> <p>There is an urgent need to follow the best practices in the banks in respect of constitution and functioning of the boards.</p> <p>Banks need to develop mechanisms to ensure percolation of corporate strategic objectives and sound values throughout the organisation. The board should ensure that senior management implements policies that prohibit (or strictly limit) activities and relationships that diminish the quality of corporate governance, such as, conflicts of interest, self-dealing and preferential treatment to related parties.</p> <p>Bank boards should play an active role in providing oversight of the way in which senior management approaches different kinds of risks which banks face, such as, credit, market, liquidity and operational.</p> <p>Currently several bank boards, particularly those of the PSBs are relatively weaker and less motivated to pursue policies, which are in the best interests of the banks themselves. Corrective steps should be taken through appropriate restructuring the boards.</p> <p>A number of corporate control mechanisms do not work freely in banks as banks operate under substantially different legal and regulatory environments than non-financial companies. The absence of a credible take-over threat among banks has a marked influence on the effectiveness of the corporate control mechanisms operating in banks. There may be benefits in reducing rigour of some of the regulatory impediments that mergers of banks face.</p> <p>The regulations regarding limits on individual shareholdings and voting rights differ as between PSBs and private sector banks. For example, while limits on individual voting rights are 1% in PSBs they are 10% for private sector banks. All such regulations should be made uniform irrespective of whether the banks are in the private or public sector.</p> <p>There are many restrictions, which influence the ownership structure of banks. To the extent that these restrictions reduce the likelihood of banks having equity holders with large stakes, it may reduce the effectiveness of the mechanism of monitoring and oversight performed by the shareholders with large stakes. Since the restrictions on market for corporate control for banks in India is not being made up for by greater direct shareholder monitoring, the current restrictions on potential owners of banks do have costs.</p> <p><b><i>Public Sector Companies</i></b></p> <p>The quality of information provided to the shareholders should be improved substantially. In particular, the balance sheet, besides meeting statutory requirements, should also devote about 6-8 pages to enlighten the shareholders about the performance of the company during the current year vis-à-vis that during the last 4-5 years. It should give a comparative picture with reference to other companies in the same/similar industry as also with reference to the industry as a whole. Consolidated accounts incorporating performance of subsidiaries and performance of various divisions of the company should be presented.</p>

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	<p>The fact that directors’ duties are often followed in letter but not in spirit is all the more true in the case of Government companies, which in many cases keep on faithfully following extant guidelines issued by different Ministries/ Departments.</p> <p>Broadly speaking, the role and responsibility of the Board should be laid down in very clear terms for all kinds of Government companies, just like all other companies. The recommendations made in this regard in the context of Indian companies should apply to the Government companies as well. In any case, the following recommendations should apply to all listed Government companies:</p> <ol style="list-style-type: none"> <li>1. The information regarding controlling stake of major shareholders in various government companies should be publicly available.</li> <li>2. The board of directors needs to look into improving the quality of information, which they provide to shareholders.</li> </ol>
<p><b>Accountability to Shareholders/ Stakeholders</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i> Not covered.</p> <p><i>LSE Combined Code</i> Not covered.</p> <p><i>SEBI</i></p> <p>The board is accountable to the shareholders for creating, protecting and enhancing wealth and resources for the company, and reporting to them on the performance in a timely and transparent manner.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies</i> No specific provisions.</p> <p><i>Banks</i> Boards of majority of the banks do not enforce clear lines of responsibility and accountability for themselves.</p> <p><i>Public Sector Companies</i></p> <p>The Companies Act (S.619) thus requires that annual report on the working and affairs of each govt. company be prepared and laid before both the Houses of Parliament along with the audit report and comments of the Comptroller and Auditor General of India (CAG) in case the Central Government is a member of the Government company. Where any State Government is also a member, the annual report has to be laid before both Houses of State Legislature as well. This applies to all companies which are referred to as “deemed Government companies”, i.e. those companies in which at least 51% of the paid-up capital is held by the Central Government or State Government or any other company which is owned by them or is under their control.</p>

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	<p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies</i></p> <p>The board should be accountable to the owners of the company, but not necessarily to the stakeholders. The company should, however, respect its contractual obligations to the stakeholders, such as, employees, creditors, suppliers, customers, environmental impact of the operations of the company, etc.</p> <p><i>Banks</i></p> <p>The boards of banks do not seem to subject themselves to high measure of accountability or performance either set by themselves voluntarily or made applicable to them externally. Thus, this leaves them largely without any accountability either to the institution or to the supervisor. The stress on accountability largely ends up with efforts to fix accountability for loans/advances that go bad. The situation calls for suitable correction.</p> <p>The board should be accountable to the owners of the bank. The banks should also keep in view the interests of main stakeholders, such as, depositors, employees, creditors, customers, etc.</p> <p><i>Public Sector Companies</i></p> <p>The board should be accountable to the ultimate owners of the Government company, which is essentially public and conduct the affairs of the company in such way that the overall social and not sectional interests receive the highest priority. The company should remain viable and meet the objectives for which it has been set up. Similarly, the interests of the main stakeholders, such as, employees, creditors, suppliers, customers, environmental impact of the operations of the company, etc receive due attention.</p>
<p><b>Access to Information</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>In order to fulfil their responsibilities, board members should have access to accurate, relevant and timely information.</p> <p><i>LSE Combined Code</i></p> <p>The board should be supplied in a timely manner with information in a form and of quality appropriate to enable it to discharge its duties. The board should be free to acquire independent professional advice at the expense of the company.</p> <p><i>SEBI</i></p> <p>Management should provide timely, accurate, substantive and material information, including financial matters and exceptions, to the board and board committees.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies</i></p> <p>No specific provisions.</p> <p><i>Banks</i></p> <p>Internal information flow is reasonably well established in banks.</p>

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	<p><b><i>Public Sector Companies</i></b></p> <p>Often all the required information is not given especially to the non-government directors. As per DPE guidelines, the part-time Chairman can call for information, but this should be appropriately done through the MD and not directly from the officers. The agenda papers for the Board meeting are provided to all the Directors.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies / Banks / Public Sector Companies</i></b></p> <p>In order to fulfil their responsibilities, board members should have access to accurate, relevant and timely information. Information currently volunteered by the management to the board members is often quite inadequate. This needs to be improved considerably.</p> <p>Whenever necessary the directors should be free to acquire, at the expense of the company, independent professional advice in regard to the matters of the company.</p> <p>The board meeting should be conducted properly with clearly laid down agenda for discussion, which should be circulated well in advance and supported by substantive information. The minutes of the board meeting should be circulated well in advance of the next board meeting. This should be a mandatory recommendation for all companies.</p>
<p><b>Election</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><b><i>OECD Principles</i></b></p> <p>The board should ensure a formal and transparent board nomination process.</p> <p><b><i>LSE Combined Code</i></b></p> <p>Non-executive directors should be appointed for specific terms and reappointment should be automatic; all directors should be subject to shareholder election following their appointments and re-elections thereafter.</p> <p>Appointment to the board should follow formal and transparent procedures; the nomination committee should make recommendations on all new board appointments.</p> <p>Directors should submit themselves for re-election at regular intervals of no more than three years.</p> <p><b><i>SEBI</i></b></p> <p>Not covered.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><b><i>Companies</i></b></p> <p>The directors are elected by the shareholders in the general meeting. The listed companies are required to intimate stock exchanges of the appointment. (S.255)</p> <p>Each director is appointed or removed by ordinary resolution.</p> <p>At least 2/3<sup>rd</sup> of total directors should retire by rotation at AGM. Remaining 1/3<sup>rd</sup> may be appointed for a fixed duration in the general</p>

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	<p>meeting. At every AGM, 1/3<sup>rd</sup> of those liable to retire by rotation shall retire from office. A retiring director may be re-appointed at AGM. (S.255,256)</p> <p>The appointment of managing director or whole-time director or manager requires Central Government approval in certain cases. (S.269)</p> <p>No specific qualifications are expected of directors other than the usual requirements that they should not be insane, not declared insolvent or with a criminal record. (S.267)</p> <p><b>Banks</b></p> <p>In terms of the provisions of Section 9 of Banking Companies (Acquisition and Transfer of Undertakings) Act, the Government constitutes the boards of directors of nationalised banks. The boards comprise of two whole-time directors, a nominee each of Government of India and RBI, nominees of workmen and non-workmen unions, and a chartered accountant. Besides this, six non-official directors with specialised knowledge in agriculture and rural economy, banking, co-operation, economics, finance, law, SSI etc. are appointed.</p> <p>The directors on the boards of private sector banks are appointed in terms of Section 10A of B.R.Act, 1949 and Section 303 of the Companies Act. While appointing the directors, the area of interest is considered to be the most important criteria. On a case by case basis, RBI appoints a nominee director on the board.</p> <p><b>Public Sector Companies</b></p> <p>Section 255, 256, 257 and 269 of the Companies Act do not apply to a Government company in which entire paid-up share capital is held by Central/State Government or subsidiary of a Government company in which entire paid-up capital is held by that Government company. These Sections stipulate:</p> <p>At least 2/3<sup>rd</sup> of total directors should retire by rotation at AGM. Remaining 1/3<sup>rd</sup> may be appointed for life-term or for a fixed duration in the general meeting. At every AGM, 1/3<sup>rd</sup> of those liable to retire by rotation shall retire from office. A retiring director may be re-appointed at AGM. (S.255,256)</p> <p>The appointment of managing director or whole-time director or manager requires Central Government approval only in certain cases. (S.269)</p> <p>The DPE guidelines stipulate the following:</p> <p>All part-time non-official directors are appointed for a term of three years at a time with rotational retirement. The retiring directors are eligible for re-appointment.</p> <p>Rotational retirement is necessary to ensure a degree of continuity of the Board. For the purpose of rotational retirement the public enterprises fall in two categories, namely, (i) enterprises where the entire paid up share capital is held by the Government (including State Governments), and (ii) the entire paid up capital is not held by the Government. Ideally in both cases rotational retirement system should be adopted in both cases.</p>



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	<p><b>Selection Process</b></p> <p>All proposals relating to creation/redesignation/upgradation of board level posts, including MD, Chairman, CMD, etc. in PSEs require the approval of the Financial Adviser and Minister-in-Charge of the Administrative Ministry. The proposals are then processed by the DPE in consultation with the Public enterprises Services Board (PESB) for approval of the Ministry of Heavy and Public Enterprises and the Ministry of Finance.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies</i></b></p> <p>Independent and executive directors should be appointed on the board based on the recommendations of a nomination committee comprising the independent directors of the board. The nomination committee should adopt clear and transparent criteria for selection of the independent board members.</p> <p>The criteria for choosing non-executive directors should be disclosed in the Annual Report.</p> <p><b><i>Banks</i></b></p> <p>Presently, the bank boards consist mainly of nominated members as against elected members. The board with nominated members cannot be regarded as being truly independent.</p> <p>It sometimes takes a number of years to reconstitute the boards of some public sector banks. The board should have continuity and directors should be appointed with different tenures.</p> <p>Presently, the directors representing the interests of workmen, employees, officers, depositors, farmers, workers, and artisans, and directors with special knowledge or practical experience in specified fields are appointed on the boards of nationalised banks for a period not exceeding 3 years, and they are eligible for reappointment until his/her successor has been appointed. It is essential to look into the composition of board of directors of nationalised banks and induct professionals.</p> <p>As in case of other companies, independent and executive directors should be appointed on the board based on the recommendations of a nomination committee of the board. The nomination committee should adopt clear and transparent criteria for selection of the independent board members.</p> <p>The criteria for choosing independent non-executive directors should be disclosed in the Annual Report.</p> <p><b><i>Public Sector Companies</i></b></p> <p>The concept of nomination committee of the Board does not exist in the Government companies at present. The selection for all Board-level posts in PSEs is done through a complicated process. The role of Public Enterprises Services Board (PESB) set up by the Board comes close to that of the nomination committee. It advises Government on the appointments to all top-level posts in PSEs. As the entire process is very complicated and involves different levels of recommendations, interviewing and final decision-making, there are considerable delays</p>

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	<p>in appointment to various top-level posts.</p> <p>An independent high powered Selection Board of eminent persons on the lines of the Union Public Service Commission to select full time directors for the PSUs should be set up. Its decisions should be final and not subject to approval of the concerned administrative ministry. The selection board should also prepare a panel of experts for nomination as independent or professional directors on the boards of PSUs. The induction of non-executive directors should be done by a nomination committee.</p> <p>The criteria for choosing independent non-executive directors should be disclosed in the Annual Report.</p>
<p><b>Size</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles / LSE Combined Code / K M Birla Report</i></p> <p>Not covered.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><b><i>Companies</i></b></p> <p>The Companies Act stipulates every company to have minimum three directors. Only individuals can be directors.</p> <p>A company, in its general meeting, by ordinary resolution, can increase or decrease the number of its directors within the limits fixed by its Articles. Any increase in the number of directors beyond 12 requires Central Government approval. (S.252, 253, 258 and 259)</p> <p><b><i>Banks</i></b></p> <p>The size of boards of public sector banks is stipulated by their respective statutes.</p> <p><b><i>Public Sector Companies</i></b></p> <p>Sections 252, 253, 258 of the Companies Act regarding size of the board apply to Government companies also.</p> <p>Section 259 of the Companies Act, which stipulates that any increase in the number of directors beyond 12 requires Central Government approval, does not apply to Government companies.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies</i></b></p> <p>All listed companies should have minimum of eight board members so as to have professionals/experts from different disciplines as required by the company's scale and range of operations. Companies with net-worth of Rs 15 crore or more should have at least 10 directors of which at least 5 should be independent directors.</p> <p><b><i>Banks</i></b></p> <p>All banks should have minimum of 10 board members.</p> <p><b><i>Public Sector Companies</i></b></p> <p>The Articles/Memorandum of Association of different PSEs specify the size of the board, which varies from company to company. Normally, the size of the Board ranges between 3 and 15. Some PSUs have even bigger boards.</p>

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	<p>The recommendation that all listed companies should have minimum of 10 board members should apply to PSEs as well.</p>
<p><b>Composition</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>Majority must be independent board members who can contribute sufficiently to the decision-making of the board.</p> <p><i>LSE Combined Code</i></p> <p>The board should include a balance of executive and non-executive directors (including independent non-executives) so that no individual or group of individuals can dominate the board's decision-making.</p> <p><i>SEBI</i></p> <p>The board of a company should have an optimum combination of executive and non-executive directors with not less than fifty per cent of the board comprising the non-executive directors. The number of independent directors would depend on the nature of the chairman of the board. In case of a non-executive chairman, at least one-third of board should comprise of independent directors and in case of an executive chairman, at least half of board should be independent. (Mandatory Recommendation)</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Banks</i></p> <p>Not less than one-half of the total number of directors of a bank shall consist of persons who have special knowledge or practical experience in one or more of the areas specified in Section 10 A (2) of the Banking Regulation Act 1949.</p> <p><i>Public Sector Companies</i></p> <p>The Members of the Board of PSEs generally consist of the following three categories:</p> <p><b>Functional Directors:</b> These are full time operational Directors responsible for day to day functioning of the enterprise. The enterprises could have representation at Board level for disciplines, such as, finance, personnel, production, marketing, project, planning etc. The number of such should not exceed 50% of the actual strength of the board.</p> <p><b>Government Directors:</b> They are appointed by the Administrative Ministries and are generally the officers dealing with the concerned enterprise. In most cases there are two such Directors on a Board; the Joint Secretary or Additional Secretary dealing with particular enterprise and the Financial Adviser of the Ministry. The number of government directors should not exceed one-sixth of the actual strength of the board with a limit of two.</p> <p><b>Non-Official Directors:</b> The induction of non-official Directors on the Boards of PSEs is considered essential in order to make the Boards more professional. They are drawn from the public men, technocrats, management experts and consultants, and professional managers in industry and trade with a high degree of proven ability.</p>

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	<p>The number of Non-Official Part-time Directors on a Board should be at least one-third of its actual strength.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies</i></p> <p>While the boards of major private sector listed companies have large number of non-executive directors, most of the non-executive directors are not independent. Generally, non-executive directors are family members, recently retired CEOs or company managers, representatives from the firms offering legal and other advice to the company.</p> <p>The board should have core group of excellent, professionally qualified non-executive directors who understand their dual role: of appreciating the issues put forward by management, and of honestly discharging their fiduciary responsibilities towards the company's shareholders as well as creditors.</p> <p>The board should be suitably composed of non-executive and truly independent members, who should be professionally competent. It is important to have high proportion of non-executive independent directors.</p> <p><i>Banks</i></p> <p>In view of the on-going transformation from traditional banking to modern banking, it is essential to look into the composition of board of directors of banks and induct professionals from the respective fields to the boards. The bank boards should have a specified proportion as non-executive independent directors as in case of other companies.</p> <p>There is also need to review and take a stand on a reasonable board level representation for private shareholders when there is mixed ownership between Government and the private sector.</p> <p><i>Public Sector Companies</i></p> <p>The boards of PSEs should have core group of well qualified/experienced professional non-executive directors who are truly independent.</p>
<p><b>Independence</b></p>	<p>▪ <b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <ul style="list-style-type: none"> <li>▪ Board independence usually requires that a sufficient number of board members not be employed by the company and not be closely related to the company or its management through significant economic, family or other ties. This does not prevent shareholders from being members.</li> <li>▪ Members should be required to disclose any material interests in transactions or matters affecting the corporation.</li> </ul> <p><i>LSE Combined Code</i></p> <ul style="list-style-type: none"> <li>▪ A majority of non-executive directors should be independent of management and free from any business or other relationship that could interfere with their independent judgement; they should be identified in the annual report.</li> </ul>

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	<ul style="list-style-type: none"> <li>▪ SEBI</li> <li>▪ Independent non-executive directors have a key role in the entire mosaic of corporate governance. Independence is defined as: “Independent directors are directors who apart from receiving director’s remuneration do not have any other material pecuniary relationship or transactions with the company, its promoters, its management, or its subsidiaries, which in the judgement of the board may affect their independence of judgement.” Further, all pecuniary relationships or transactions of the non-executive directors should be disclosed in the annual report.</li> <li>▪ CURRENT PROVISIONS</li> <li>▪ Companies <ul style="list-style-type: none"> <li>▪ Director shall not enter into any contract with the company for sale, purchase, etc. of goods without the consent of Board of Directors of the company, except in certain cases. (S.297)</li> <li>▪ Director shall disclose his interest in any contract or arrangement at a meeting of the Board of Directors.</li> </ul> </li> <li>▪ Banks <ul style="list-style-type: none"> <li>▪ Section 20 of BR Act, 1949 prohibits loans and advances to directors or to any firm or company in which directors are interested or loans to individuals in respect of whom any of its directors is a partner or guarantor. However, where transactions are not barred by law, special monitoring of transactions with related parties, including large shareholders is not always subjected to special monitoring. Disclosure of interest by directors is mandatory and in case there is any likelihood of conflict of interest arising, the concerned director is required to abstain from participating in the decision-making process relating to that case.</li> </ul> </li> </ul> <p><b><i>Public Sector Companies</i></b></p> <ul style="list-style-type: none"> <li>▪ The concept of independence of directors does not appear to have found its place in the existing Government guidelines.</li> </ul> <p><b><i>ISSUES / RECOMMENDATIONS</i></b></p> <p><b><i>Companies / Banks / Public Sector Companies</i></b></p> <ul style="list-style-type: none"> <li>▪ The definition of independence to be followed by all companies, including banks and public sector companies, should be the definition recommended by the Blue Ribbon Committee in the context of the audit committees, which is as follows:</li> <li>▪ “Members ... shall be considered independent if they have no relationship to the corporation that may interfere with the exercise of their independence from management and the corporation.</li> <li>▪ Examples of such relationships include: <ul style="list-style-type: none"> <li>▪ A director being employed by the corporation or any of its affiliates for the current year or any of the past five years;</li> <li>▪ A director accepting any compensation from the corporation or any of its affiliates other than compensation for board service or benefits under a tax-qualified retirement plan;</li> </ul> </li> </ul>

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	<ul style="list-style-type: none"> <li>▪ A director being a member of the immediate family of an individual who is, or has been in any of the past five years, employed by the corporation or any of its affiliates as an executive officer;</li> <li>▪ A director being a partner in, or a controlling shareholder or an executive officer of, any for-profit business organisation to which the corporation made, or from which the corporation received, payments that are or have been significant to the corporation or business organisation in any of the past five years;</li> <li>▪ A director being employed as an executive of another company where any of the corporation's executives serves that company's compensation committee.”</li> </ul> <p>In the Indian context the directors nominated by the government on the boards of PSUs and PSBs and all nominees of the regulators should not be considered as independent.</p> <p>A majority of non-executive directors should be independent of management and free from any business or other relationship that could interfere with their independent judgement; they should be identified in the annual report.</p>
<p><b>Orientation &amp; Training</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>Not covered.</p> <p><i>LSE Combined Code</i></p> <p>Training should be available to any director upon appointment to the board.</p> <p><i>SEBI</i></p> <p>Not covered.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>There is no practice in Indian companies of pre-induction meeting/briefing or any post-induction orientation.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>Only experts, such as those having financial, technical or legal knowledge or specialisation in the area of operations of the company, should be appointed to the board. However, some training on board practices should be imparted to the elected members at the cost of the company. For this purpose, an Institute of Directors could be set up.</p>
<p><b>Multiple Board Seats</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>Service on too many boards can interfere with performance. Specific limitations may be less important than ensuring that members of the board enjoy legitimacy and confidence in the eyes of the shareholders.</p>

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	<p><b><i>LSE Combined Code</i></b></p> <p>Not covered.</p> <p><b><i>SEBI</i></b></p> <p>A director should not be a member in more than 10 committees or act as chairman of more than five committees across all companies in which he is a director. There should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place. (Mandatory Recommendation)</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><b><i>Companies</i></b></p> <p>Directors are required to disclose other directorships, the total number of which should not be more than 15 companies. (S.275]</p> <p>The Board may appoint a person Managing Director in more than one company, subject to passing of unanimous resolution. (S.316)</p> <p><b><i>Banks</i></b></p> <p>A person cannot be on the boards of two banking companies simultaneously.</p> <p><b><i>Public Sector Companies</i></b></p> <p>As per the Companies Act, Directors are required to disclose other directorships, the total number of which should not be more than 15 companies. (S. 275)</p> <p>Section 316 of the Companies Act, which stipulates that the Board may appoint a person Managing Director in more than one company, subject to passing of unanimous resolution, does not apply to a Government company where entire paid-up capital is held by Central/State Government. A full-time Director can hold post in only one PSE.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies / Banks / Public Sector Companies</i></b></p> <p>In case of all companies, the maximum limit for a director serving on multiple boards should be 10.</p> <p>The same director should also not be a member of too many committees (preferably not more than 5/6 committees).</p>
<p><b>Chairman and CEO</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><b><i>OECD Principles</i></b></p> <p><b><i>In unitary board systems, the separation of the roles is often proposed.</i></b></p> <p><b><i>LSE Combined Code</i></b></p> <p>There should be a clear division of responsibilities at the head of the company which will ensure a balance of power and authority, such that no one individual has unfettered powers of direction.</p> <p>Any decision to combine these two positions must be publicly justified; in all circumstances, a strong and independent non-executive element must</p>

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	<p>sit on the board with a senior independent director, other than the Chairman to whom concerns can be brought and who, together with the Chairman and CEO, should be identified in the annual report.</p> <p><b>SEBI</b></p> <p>Chairman's role should in principle be different from that of the chief executive, though the same individual may perform both the roles. A non-executive Chairman should 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 to enable him to discharge the responsibilities effectively.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><b><i>Companies</i></b></p> <p>No specific provisions.</p> <p><b><i>Banks</i></b></p> <p>The Government has been in control of the appointment of Chief executive and has preferred the composite position of Chairman and Managing Director.</p> <p><b><i>Public Sector Companies</i></b></p> <p>As per DPE Guidelines, the Board of PSE should normally be headed by a single Chairman-cum-Managing Director. This post should not be kept vacant for very long. The temporary vacancies of Chairman and Managing Directors of PSEs can be filled in by giving officiating charge to the senior most Functional Director on the Board of the concerned enterprise.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies</i></b></p> <p>If the CEO is also the Chairman of the Board, more than 50 per cent of the board members should be independent. It is preferable to separate the role of CEO from the Chairman of the Board.</p> <p><b><i>Banks</i></b></p> <p>The universal preference these days is separation of the functions of Chairman and MD/CEO. Chairman should be independent, objective, ethical and experienced to manage the diversities among shareholders, stakeholders and management.</p> <p><b><i>Public Sector Companies</i></b></p> <p>The post of CEO in many cases keeps on lying vacant for months and these undertakings are looked after by the Joint Secretaries of the Ministry as additional charge. Immediate steps should be taken to delink the posts of Chairman and CEO of the PSBs from the officials of the administrative ministries. Further it is also preferable to separate the role of CEO/MD from the Chairman of the Board.</p>



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<b>Board Committees</b>	
<b>Audit Committee</b>	<p data-bbox="537 315 927 352"><b><u>CODES AND PRINCIPLES</u></b></p> <p data-bbox="537 367 768 404"><i>OECD Principles</i></p> <p data-bbox="581 421 1495 495">Boards may consider establishing this committee with a minimum number or to be composed entirely of non-executive members.</p> <p data-bbox="537 510 816 547"><i>LSE Combined Code</i></p> <p data-bbox="581 564 1495 712">The audit Committee should comprise at least three non-executive directors, a majority of whom should be independent, with written terms of reference that identify their authority and who should be named in the annual report.</p> <p data-bbox="537 726 951 763"><i>Blue Ribbon Committee Report</i></p> <p data-bbox="581 781 1495 1111">Audit Committees play an important role in the larger governance process through oversight of financial reporting. A proper and well functioning system exists when the three main groups responsible for financial reporting—the full board including the audit committee, financial management including the internal auditors, and the outside auditors—form a “three-legged stool” that supports responsible financial disclosure and active and participatory oversight. The audit committee is an extension of the full board and hence the ultimate monitor of the process.</p> <p data-bbox="581 1128 1305 1165">Recommendations for performance of audit committees:</p> <p data-bbox="581 1182 1495 1365">NYSE and NASDAQ adopt the following definition of independence for purposes of service on the audit committee of listed companies: “Members of the audit committee shall be considered independent if they have no relationship to the corporation that may interfere with the exercise of their independence from management and the corporation”.</p> <ul data-bbox="581 1382 1495 2128" style="list-style-type: none"> <li data-bbox="581 1382 1495 1456">▪ The audit committees to be comprised solely of independent directors.</li> <li data-bbox="581 1473 1495 1655">▪ The audit committees to be comprised of a minimum of three directors, each of whom is financially literate or becomes financially literate within a reasonable period of time. Further, at least one member of the audit committee should have accounting or related financial management expertise.</li> <li data-bbox="581 1673 1495 1929">▪ The audit committee of each listed company to (i) adopt a formal written charter that is approved by the full board of directors and that specifies the scope of the committee’s responsibilities, and how it carries out those responsibilities, including structure, processes, and membership requirements, and (ii) review and reassess the adequacy of the audit committee charter on an annual basis.</li> <li data-bbox="581 1946 1495 2128">▪ SEC to promulgate rules that require the audit committee to disclose in the company’s proxy statement for its annual meeting of shareholders whether the audit committee has adopted a formal written charter, and, if so, whether the audit committee satisfied its responsibilities during the prior year in compliance with its charter.</li> </ul>

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	<ul style="list-style-type: none"> <li>▪ The audit committee charter for every listed company specify that the outside auditor is ultimately accountable to the board of directors and the audit committee, as representatives of shareholders. These shareholder representatives have the ultimate authority and responsibility to select, evaluate, and, where appropriate, replace the outside auditor.</li> <li>▪ The audit committee charter for every listed company specify that the audit committee is responsible for ensuring its receipt from the outside auditors of a formal written statement delineating all relationships between the auditor and the company.</li> <li>▪ Generally Accepted Accounting Standards (GAAS) require that a company's outside auditor discuss with the audit committee the auditor's judgements about the quality, not just the acceptability, of the company's accounting principles as applied in its financial reporting.</li> <li>▪ SEC requires all reporting companies to include a letter from the audit committee in the company's annual report disclosing whether or not (i) management has reviewed the audited financial statements with the audit committee, (ii) the outside auditors have discussed with the audit committee the outside auditors' judgements of the quality of accounting principles, (iii) the members of the audit committee have discussed among themselves the information disclosed to the audit committee, and (iv) the audit committee believes that the company's financial statements are fairly presented in conformity with GAAP in all material respects.</li> </ul> <p>SEC requires that a reporting company's outside auditor conduct an Interim Financial Review.</p> <p><b>BIS</b></p> <p>The audit committee of banks should provide oversight of the bank's internal and external auditors, approving their appointment and dismissal, reviewing and approving audit scope and frequency, receiving their reports and ensuring that management is taking appropriate corrective actions in a timely manner. The independence of this committee can be enhanced when it is comprised of external board members who have banking and financial expertise.</p> <p><b>SEBI</b></p> <p>A qualified and independent audit committee should be set up by the board of a company with a view to enhancing the credibility of the financial disclosures of a company and promoting transparency. (Mandatory Recommendation)</p> <p>The audit committee should have minimum three members, all being non-executive directors, with the majority being independent, and with at least one director having financial and accounting knowledge. (Mandatory Recommendation)</p> <p>The Chairman of the committee should be an independent director and should be present at AGM to answer shareholder queries. (Mandatory Recommendation)</p> <p>The audit committee should meet at least thrice a year. One meeting must be held before finalisation of annual accounts and one necessarily</p>

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	<p>every six months. (Mandatory Recommendation)</p> <p>As the Audit Committee acts as the bridge between the board, the statutory auditors and internal auditors, its role should include the following:</p> <ul style="list-style-type: none"> <li>• Oversight of company’s financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.</li> <li>• Recommending the appointment and removal of external auditor, fixation of audit fee and also approval of payment for any other services.</li> <li>• Reviewing with the management the annual financial statements before submission to the board, focussing primarily on any changes in accounting polices and practices, major accounting entries based on exercise of judgement by management, qualifications in draft audit report, significant adjustments arising out of audit, the going concern assumptions, compliance with accounting standards, compliance with stock exchange and legal requirements concerning financial statement, any related party transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the company at large</li> <li>• Reviewing adequacy of internal control systems and functions</li> <li>• Reviewing the company’s financial and risk management policies.</li> <li>• Looking into the reasons for substantial defaults in the payments to depositors, debenture holders, shareholders, and creditors.</li> <li>• Reviewing/looking into the matters where there is a suspected fraud or irregularity or a failure of internal control system of material nature and reporting the matter to the board.</li> </ul> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><b><i>Companies</i></b></p> <p>The detailed provisions in respect of Audit Committees have been incorporated in the Companies (Amendment) Act, 1999.</p> <p><b><i>Banks</i></b></p> <p>Banks in India are required to set up an audit committee of board of directors to oversee and provide direction to the internal audit/inspection function in banks in order to enhance its effectiveness as a management tool. The CMD of the bank is not a member of the audit committee to ensure independence in its functioning. The members of the audit committee comprise of the ED of the bank, two official directors (nominees of RBI and Government) and two non-official and non-executive directors, at least one of them being a professional Chartered Accountant. The Chartered Accountant director presides over the meetings.</p>

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	<p><b><i>Public Sector Companies</i></b></p> <p>Section 619 of the Companies Act lays down the procedure for the audit of accounts of govt. companies. Sec. 224 to 233 of the Cos. Act, which deal with appointment and remuneration of auditors, resolution for appointing/removing auditors, qualification/ disqualification of auditors, powers/duties of auditors and signing of audit report, etc., do not apply to govt. companies.</p> <p>The auditor of a govt. company is appointed by the Central Government on the advice of the Comptroller and Auditor General of India (CAG), who directs the manner in which the accounts of government companies shall be audited. The audit report is submitted to the CAG, who comments upon or supplements the auditor’s report. The comments of the CAG along with the audit report are placed before the AGM of the company.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies / Banks / Public Sector Companies</i></b></p> <p>All types of companies need to ensure that audit committee of the board functions effectively and independently. It is therefore desirable that the majority of the members of the audit committee should be non-official professionals. It is recommended that the audit committees should be formed as per the recommendations of the Blue Ribbon Committee in all companies, including banks and public sector enterprises.</p> <p>In particular, the following points must be incorporated:</p> <ul style="list-style-type: none"> <li>▪ Audit Committees play an important role in the larger governance process through oversight of financial reporting. A proper and well functioning system exists when the three main groups responsible for financial reporting—the full board including the audit committee, financial management including the internal auditors, and the outside auditors—form a “three-legged stool” that supports responsible financial disclosure and active and participatory oversight. The audit committee is an extension of the full board and hence the ultimate monitor of the process.</li> <li>▪ The following definition of independence for purposes of service on the audit committee of listed companies must be adopted. Members of the audit committee shall be considered independent if they have no relationship to the corporation that may interfere with the exercise of their independence from management and the corporation.</li> <li>▪ The audit committees to be comprised solely of independent directors.</li> <li>▪ The audit committees to be comprised of a minimum of three directors, each of whom is financially literate or becomes financially literate within a reasonable period of time. Further, at least one member of the audit committee should have accounting or related financial management expertise.</li> <li>▪ The audit committee of the company should (i) adopt a formal written charter that is approved by the full board of directors and that specifies the scope of the committee’s responsibilities, and how it carries out those responsibilities, including structure, processes, and membership requirements, and (ii) review and reassess the adequacy of the audit</li> </ul>

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	<p>committee charter on an annual basis.</p> <ul style="list-style-type: none"> <li>▪ The audit committee to disclose in the company’s proxy statement for its annual meeting of shareholders whether it has adopted a formal written charter, and, if so, whether the audit committee satisfied its responsibilities during the prior year in compliance with its charter.</li> <li>▪ The audit committee charter should specify that the audit committee is responsible for ensuring its receipt from the outside auditors of a formal written statement delineating all relationships between the auditor and the company.</li> <li>▪ Generally Accepted Accounting Standards (GAAS) require that a company’s outside auditor discuss with the audit committee the auditor’s judgements about the quality, not just the acceptability, of the company’s accounting principles as applied in its financial reporting.</li> <li>▪ All reporting companies to include a letter from the audit committee in the company’s annual report disclosing whether or not (i) management has reviewed the audited financial statements with the audit committee, (ii) the outside auditors have discussed with the audit committee the outside auditors’ judgements of the quality of accounting principles, (iii) the members of the audit committee have discussed among themselves the information disclosed to the audit committee, and (iv) the audit committee believes that the company’s financial statements are fairly presented in conformity with GAAP in all material respects.</li> </ul> <p>The audit committees should not function merely as super inspection departments of banks as they are doing currently. They should basically provide oversight of the bank’s internal and external auditors, approving their appointment and dismissal, reviewing and approving audit scope and frequency, receiving their reports and ensuring that management is taking appropriate corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors.</p> <p>The Government companies follow a very different procedure for audit at present. The audit is conducted as per the procedure laid down by the Comptroller and Auditor General of India (CAG). It is desirable that the audit committees should be formed in Government companies as per the recommendations of the Blue Ribbon Committee to perform a distinct role. The role of CAG and audit committees should not be mixed up as CAG looks at audit from propriety angle.</p>
<p><b>Nomination Committee</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><b><i>OECD Principles</i></b></p> <p>Boards may consider establishing remuneration committee with a minimum number or to be composed entirely of non-executive members.</p> <p><b><i>LSE Combined Code</i></b></p> <p>A majority of the members of the nomination committee should be non-executive directors and the chairman of the committee should either the chairman of the board or a non-executive director. The chairman and members of the committee should be identified in the annual report.</p>

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	<p><b>BIS</b></p> <p>Nomination committee should be set up for providing assessment of the board effectiveness and directing the process of reviewing and replacing board members.</p> <p><b>SEBI</b></p> <p><b>Not covered.</b></p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies</i></p> <p>Nomination committees do not exist in companies at present.</p> <p><i>Banks</i></p> <p>Banks do not have nomination committees for nominating directors on boards of banks.</p> <p><i>Public Sector Companies</i></p> <p>The concept of nomination committee of the board does not exist in the Government companies at present.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies/Banks/PSUs</i></p> <p>Boards of companies, banks, and PSUs should set up nomination committees consisting of at least three independent board members. The nomination committee should have the responsibility of proposing new nominees for the board and assessing directors on an ongoing basis. Such a review should be conducted on an annual basis so that boards are manned by persons with the appropriate skills and experience.</p>
<p><b>Remuneration Committee</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>Boards may consider establishing this committee with “a minimum number or be composed entirely of non-executive members”.</p> <p><i>LSE Combined Code</i></p> <p>Remuneration committees should be made up exclusively of non-executive directors who make recommendations on the company’s framework of executive remuneration and who must operate independently from managerial interference and from any intrusive business relationship; they should be granted full authority to seek counsel from both inside and outside sources. They should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors.</p> <p><b>BIS</b></p> <p>A Compensation Committee should be set up for providing oversight of remuneration of senior management and other key personnel and ensuring that compensation is consistent with the bank’s culture, objectives, strategy and control environment.</p>

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	<p><b><i>SEBI</i></b></p> <p>The board should set up a remuneration committee to determine on their behalf and on behalf of the shareholders with agreed terms of reference, the company’s policy on specific remuneration packages for executive directors, including pension rights and any compensation payment. (Non-mandatory Recommendation)</p> <p>The remuneration committee should comprise of at least three directors, all of whom should be non-executive directors, the chairman of the committee being an independent director. (Non-mandatory Recommendation)</p> <p>The Chairman of the remuneration committee should be present at the AGM to answer the shareholder queries. (Non-mandatory Recommendation)</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><b><i>Companies/Banks/PSUs</i></b></p> <p>The remuneration committees do not exist at present.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies / Banks / Public Sector Companies</i></b></p> <p>The boards should be required to form remuneration committees. Remuneration committee should be made up exclusively of non-executive independent directors who make recommendations on the company’s framework of remuneration for the full time directors and senior employees of the company. The committee should operate independently from managerial interference and from any intrusive business relationship; they should be granted full authority to seek counsel from both inside and outside sources. This should be a mandatory recommendation.</p>
<p><b>Committee to redress shareholder complaints</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><b><i>OECD Principles</i></b></p> <p>Not covered.</p> <p><b><i>LSE Combined Code</i></b></p> <p>Not covered.</p> <p><b><i>SEBI</i></b></p> <p>A board committee under the chairmanship of a non-executive director should be formed to specifically look into the redress of shareholder complaints relating to transfer of shares, non-receipt of balance sheet etc. (Mandatory Recommendation)</p> <p>To expedite the process of share transfers, the board should delegate the power of share transfer to an officer or a committee or to the registrars and share transfer agents. The delegated authority should attend to share transfer formalities at least once in a fortnight. (Mandatory Recommendation)</p>

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	<p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies / Public Sector Companies</i></p> <p>No specific provisions exists for such a committee.</p> <p><b><u>ISSUES/ RECOMMENDATIONS</u></b></p> <p><i>Companies</i></p> <p>Board committee as recommended by SEBI should be formed.</p>
Board Meetings	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>Not covered.</p> <p><i>LSE Combined Code</i></p> <p>The board should meet regularly and have a formal schedule of matters specifically reserved to it for decision.</p> <p><i>SEBI</i></p> <p>The board meetings should be held at least four times in a year, with a maximum time gap of four months between any two meetings. The Committee has prepared a list of minimum information to be placed before the board of directors. (Mandatory Recommendation)</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies/PSUs</i></p> <p>The board of directors is legally bound to meet at least once every three months. There should be 4 meetings every year. (S.285) The meetings can be held at any place convenient to the directors.</p> <p><i>Banks</i></p> <p>Nationalised banks have to hold at least six board meetings in a year and at least once in a quarter.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>The boards of large companies and banks should meet at least six times a year. Through suitable legal provisions in the Companies Act, attending of board meetings through video-conferencing facilities should be recognised as valid attendance. This is particularly necessary to facilitate participation in or attendance of some of the directors who are normally located abroad or on tour to a different place on urgent business.</p>
Tenure of Directors	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>Not covered.</p> <p><i>LSE Combined Code</i></p> <p><i>SEBI</i></p> <p>Not covered, except re-election every three years.</p>



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	<p>The tenure of office of the directors will be as stipulated in the Companies Act.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies</i></p> <p>The Managing Director cannot be appointed for more than 5 years at a time. (S.317)</p> <p><i>Banks</i></p> <p>The tenure of whole time directors of nationalised banks is up to five years at time and that of other directors three years.</p> <p><i>Public Sector Companies</i></p> <p>S.317 of the Companies Act, which stipulates that the Managing Director cannot be appointed for more than 5 years at a time, does not apply to a Government company.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>The term limits for independent directors may preferably be up to 10 years in a stretch.</p>
Age limits	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles / LSE Combined Code /SEBI</i></p> <p>Not covered.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>No age limits are specified.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>All companies should ideally follow the maximum age limit of 65 years for whole-time directors and 75 years for part-time directors.</p>
Liability	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles / LSE Combined Code /SEBI</i></p> <p>Not covered.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies</i></p> <p>Liability of directors in a limited company is limited in nature. However, the liability of all directors or of any director or manager may be made unlimited by incorporating an enabling provision to this effect in the memorandum. (S.323)</p> <p><i>Banks</i></p> <p>No provisions.</p>

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	<p><b><i>Public Sector Companies</i></b></p> <p>S.323 of the Companies Act applies to Government companies.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies / Banks / Public Sector Companies</i></b></p> <p>The liability of non-executive directors should be limited. They should not be held responsible for matters that are not disclosed to the board by the executive directors. The main responsibility and liability thereof in respect of all statutory compliances should solely rest with the CEO/MD.</p>
<p><b>Nominee Directors</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><b><i>OECD Principles</i></b></p> <p>Not covered.</p> <p><b><i>LSE Combined Code</i></b></p> <p>Not covered.</p> <p><b><i>SEBI</i></b></p> <p>The financial or investment institutions should appoint nominees on the boards of companies only on a selective basis where such appointment is pursuant to a right under loan agreements or where such appointment is considered necessary to protect the interest of the institution. When a nominee of the institution is appointed as a director of the company he should have the same responsibility, be subject to the same discipline and be accountable to the shareholders in the same manner as any other director of the company.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><b><i>Companies</i></b></p> <p>Not stipulated; the practice may vary from company to company.</p> <p><b><i>Banks</i></b></p> <p>The Bank Nationalisation Act stipulates that one officer of the RBI should be nominated by the Central Government as a director on the board of nationalised banks.</p> <p><b><i>Public Sector Companies</i></b></p> <p>Regarding nominee Directors, the DPE Guidelines stipulate the following:</p> <p>The prime duties of a Government nominee on the Board of Directors of a PSU are to safeguard the interest of the shareholders, contribute to the efficient functioning of the PSUs and report back the same regularly to the Government. The concerned Administrative Ministry is required to ensure that the nominee Directors comply with the responsibility cast on them.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies</i></b></p> <p>To protect their commercial interests lending institutions may stipulate a clause in the loan agreement appoint nominee directors on the boards of companies.</p>

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	<p>Since institutional investors like mutual funds are the trustees of investors' money, they have a special role to play in the Indian context where majority of the companies conform to the 'insider' model and the promoter family interests receive much higher priority over that of the common shareholders. As institutions have much better access to information and better monitoring capabilities they should take interest in corporate governance. Institutions should use their voting rights to get eminent and competent professionals elected as independent directors on the boards of companies especially where they have sizeable shareholdings.</p> <p><b>Banks</b></p> <p>The RBI being the regulator of the banking system, nomination of the RBI official to the board of a bank involves basic conflict of interests. RBI has started withdrawing its nominees from bank boards. It may consider hastening this process of withdrawing its nominees.</p> <p><b>Public Sector Companies</b></p> <p>The Government should lay down specific guidelines to be followed by all nominee directors.</p>
<p><b>Disclosure of Director Biographical Information</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><b>OECD Principles</b></p> <p>Not covered.</p> <p><b>LSE Combined Code</b></p> <p>Sufficient biographical data should accompany names of directors submitted for election and re-election by which shareholders may make informed voting decisions.</p> <p><b>SEBI</b></p> <p>In case of appointment of a new director or reappointment of a director, shareholders must be provided with a brief resume of the director, his expertise in specific functional areas and names of companies in which he holds directorship and the membership of committees of the board. (Mandatory Recommendation)</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><b>Companies / Banks / Public Sector Companies</b></p> <p>No specific provisions have been laid down.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b>Companies / Banks / Public Sector Companies</b></p> <p>The necessary biographical details of directors should be provided in the Annual Report. The details should also contain pecuniary and/or family relationships, if any, of the directors with the company and its management. All such details should be given to the shareholders when a new director is being elected by them at the general meeting of shareholders.</p>

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
<b>Remuneration</b>	
<b>Level and Composition of Remuneration</b>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>Not covered.</p> <p><i>LSE Combined Code</i></p> <p>Levels of remuneration should be sufficient to retain directors with the competence to run the company, but not higher, and should be structured so as to link rewards to performance.</p> <p>Grants under option and other incentive plans should be phased over time, rather than in one large block.</p> <p>Director remuneration should be incentive-oriented for best director performance and be so designed as to align directors' interests with those of shareholders.</p> <p>Annual bonuses, long-term incentive or traditional share option schemes should be considered as supplements to director compensation; any such deferred remuneration or options should not be exercisable until after at least a three-year period.</p> <p><b><i>SEBI</i></b></p> <p>Adequate compensation package should be given to the non-executive independent directors so that these positions become financially remunerative to attract talent. The board of directors should decide the remuneration of non-executive directors. The remuneration packages for executive directors to be determined by the remuneration committee.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies</i></p> <p>The total remuneration payable by a company to its director and manager shall not exceed 11% of its net profit for a financial year, excluding fees payable to directors for attending meetings of the board or any committee thereof. (S.198)</p> <p>There is an upper limit of remuneration payable to each of the MD or whole-time director individually up to 5% of the net profit and if there is more than such director, 10% for all of them together in a financial year. The perquisites payable are not included in the computation of ceiling limits. Remuneration payable to a director who is not a managing or whole-time director or where there is more than one such director, to all of them taken together, shall not exceed 1% of net profits if the company has MD or whole-time director or manager and 3% of net profits in any other case. (S.309)</p> <p><i>Banks</i></p> <p>In public sector banks, there is no performance-related compensation. Therefore, there is very little incentive or disincentive for good or bad performance. Some private sector banks have moved towards performance-related compensation.</p>

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	<p><b><i>Public Sector Companies</i></b></p> <p>Sections 198 and 309 of the Companies Act, which deal with remuneration payable by a company, do not apply to Government companies. The remuneration for all board level posts in PSEs is fixed by the Government at a gap of every five years.</p> <p>The part-time Chairman is paid either a fixed monthly honorarium or sitting fee and incidentals subject to a maximum of Rs. 1000/-p.m. They are also entitled to travelling allowance, accommodation, medical benefits, company car, telephone and secretariat assistance as admissible to highest grade officer of the company. This is not applicable to a serving Government officer functioning as part-time Chairman.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies / Banks / Public Sector Companies</i></b></p> <p>The remuneration of executive directors should be decided by the board's remuneration committee. Besides the usual sitting fees the non-executive directors should be suitably remunerated for the time devoted by them for the affairs of the company. There should be no such upper limit like Rs. 5000 for sitting fees.</p> <p>Since companies vary in size and complexity and if non-executive directors have to take close interest in the matters of their companies, they should be compensated for the time spent by them.. To secure deeper involvement of non-executive directors, companies should pay a commission over and above the sitting fees for the use of the professional inputs. Companies may also consider offering stock options, so as to relate rewards to performance. An appropriate mix of commissions, which are rewards on current profits, and stock options, which are rewards contingent upon future appreciate of corporate value, would align a non-executive director towards keeping an eye on short term profits as well as longer term shareholder value.</p>
<p><b>Procedure for Determining Remuneration</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><b><i>OECD Principles</i></b></p> <p>The board should review key executive and board remuneration.</p> <p><b><i>LSE Combined Code</i></b></p> <p>Companies should establish formal and transparent procedures for determining remuneration. No director should alone be involved in determining his or her own remuneration.</p> <p>The remuneration committee should take care to position the company among others in the industry so as not to overpay directors when no proportionate improvement in performance may be possible.</p> <p>Executive share options should not be priced at a discount except when authorised by the listing rules.</p> <p>Director performance conditions should be factored into determination of bonuses, with upper limits and period-related partial payments.</p> <p>Criteria such as performance and the company's position among companies should factor into the determination of all incentive schemes.</p>

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	<p><b>SEBI</b></p> <p>The board of directors should decide the remuneration of non-executive directors. (Mandatory Recommendation)</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><b>Companies</b></p> <p>No specific provisions have been laid down.</p> <p><b>Banks</b></p> <p>For public sector banks, decided and reviewed every 5 years through a process of industry-wide wage negotiations.</p> <p><b>Public Sector Companies</b></p> <p>Decided by the Pay Commission.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b>Companies / Banks / Public Sector Companies</b></p> <p>The remuneration committee should follow a clearly laid down and transparent procedure for determining remuneration to the board.</p> <p>The remuneration committee should take care to position the company among others in the industry so as not to overpay directors when no proportionate improvement in performance may be possible.</p> <p>Executive share options should not be priced at a discount except when authorised by the listing rules.</p> <p>Criteria such as performance and the company's position among companies in the same or similar industry should factor into the determination of all incentive schemes.</p>
<p><b>Disclosure of Remuneration</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><b>OECD Principles</b></p> <p>Companies are generally expected to disclose sufficient information on the remuneration of board members and key executives (either individually or in the aggregate) for investors to properly assess the costs and benefits of remuneration plans and the contribution of incentive schemes, such as stock option schemes, to performance.</p> <p><b>LSE Combined Code</b></p> <p>Membership in the remuneration committee must be annually reported to shareholders.</p> <p>The annual report should include statements to shareholders regarding remuneration policy and the state of accounts.</p> <p>The report of the remuneration committee should identify each director and specify their total compensation package; regarding share options, it should include a statement of compliance with the Accounting Standards Boards' urgent issues task force Abstract 10 and explanations of any lump sum payments.</p> <p>Directors' total remuneration package, including share options and pension arrangements, should be subject to audit.</p>

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	<p><b><i>SEBI</i></b></p> <p>The disclosures regarding all elements of remuneration package of all the directors, i.e. salary, benefits, bonuses, stock options, pension etc. should be made to the shareholders. (Mandatory Recommendation)</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><b><i>Companies/PSUs</i></b></p> <p>Companies are required by law to disclose in the annual report all the payments made to the directors and all employees drawing annual compensation/salary above Rs</p> <p><b>Banks</b></p> <p>A number of banks do not disclose the entire compensation package of their full time directors.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies / Banks / Public Sector Companies</i></b></p> <p>The remuneration packages of all directors should be disclosed in the annual report.</p> <p>Membership in the remuneration committee must be annually reported to shareholders.</p> <p>The annual report should include statements to shareholders regarding remuneration policy and the state of accounts.</p> <p>The report of the remuneration committee should identify directors individually and specify their compensation packages.</p> <p>Directors’ total remuneration package, including share options and pension arrangements, should be subject to audit.</p>
<p><b>Shareholder Involvement in Determining Remuneration</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><b><i>OECD Principles</i></b></p> <p>Not covered.</p> <p><b><i>LSE Combined Code</i></b></p> <p>Shareholders should approve any long term incentive schemes for executives and either decide compensation of non-executive and remuneration committee members or, if the articles allow, the board should delegate a sub-committee to address this matter, the AGM should be considered a convenient forum for shareholder approval of remuneration policy.</p> <p>Shareholders may be called on to approve the board’s remuneration report, and they should approve any new or supplemental long-term incentive.</p> <p><b><i>SEBI</i></b></p> <p>Not covered.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><b><i>Companies / Banks / Public Sector Companies</i></b></p> <p>No specific provisions have been laid down.</p>

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	<p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>The shareholders should have the final say in approving remuneration of the full-time as well as the non-executive directors. The remuneration packages of senior employees holding key executive posts should be approved by the board and full details thereof should be disclosed to the shareholders.</p>
<b>ROLE OF SHAREHOLDERS</b>	
<p><b>Shareholder Rights and Shareholder Voting</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>The corporate governance framework should protect shareholders' rights.</p> <p>Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings and information about rules, including voting procedures, that govern general shareholder meetings:</p> <p>Shareholders should receive sufficient and timely information about the date, location and agenda of general meetings.</p> <p>Subject to reasonable limitations, investors should have the opportunity to ask questions of the board and place items on agenda.</p> <p>Shareholders should be able to vote in person or in absentia, with equal weight for the two.</p> <p>Shareholders, including institutional investors, should consider the costs and benefits of exercising their voting rights.</p> <p><i>LSE Combined Code</i></p> <p>Shareholders have a responsibility to make considered use of their votes.</p> <p>Unless a poll is called, all proxy votes should be counted, and after resolutions have been dealt with on a show of hands, the company should indicate the number of proxy votes cast, along with for and against vote, on each resolution.</p> <p><i>SEBI</i></p> <p>A company must have appropriate systems in place, which will enable the shareholders to participate effectively and vote in the shareholders' meetings. The company should also keep the shareholders informed of the rules and voting procedures, which govern the general shareholder meetings.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies</i></p> <p>All shareholders are guaranteed the right to participate and vote in company meetings and shareholder ballots.</p> <p>All matters of importance regarding a company's functioning require shareholder approval.</p> <p>Shareholders have a right to vote by proxy and are entitled to appoint another person as his/her proxy, irrespective of whether the proxy is a shareholder or not. A proxy has the right to attend and vote, but</p>



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	<p>cannot speak at the meeting.</p> <p>The concept of postal ballot has been introduced in the Companies (Amendment Act), 1999.</p> <p>Shareholders can approach CLB, the courts or SEBI for redress when their legal rights are violated. The minority shareholders can apply to CLB for redress against oppression and mismanagement, subject to the minimum requirement of not less than one hundred members or 1/10<sup>th</sup> of the total number of members whichever is less, or any member/s holding not less than 1/10<sup>th</sup> of the issued share capital.(S.397-399)</p> <p>The Companies Act requires all shares and all share transfers to be registered. Companies are required to maintain up-to-date registers of shareholders and debenture-holders. Registers must be available for public scrutiny.</p> <p><b><i>Banks</i></b></p> <p>The shareholders' rights of public sector banks stand considerably abridged since their approval is not required for paying dividend or approving accounts at the AGM. The voting rights of a shareholder in a public sector bank do not exceed 1% irrespective of the size of holdings. In the case of the private sector banks this limit is 10%.</p> <p><b><i>Public Sector Companies</i></b></p> <p>The provisions in the Companies Act apply to Government companies.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies/PSUs</i></b></p> <p>A system of electronic voting should be introduced to enable shareholders to vote at the AGMs.</p> <p>Institutional investors should favour a dialogue with companies to determine mutual objectives. They should encourage regular and systematic contact at senior executive level to exchange views and information on strategy, performance, board membership and quality of management. They should also provide checks and balances to prevent unhealthy concentration of decision-making power.</p> <p>The institutional shareholders can also play a role in appointment of independent non-executive directors of necessary calibre, competence, and experience.</p> <p>While it is true that the shareholders have the appellate powers and some of them have been successful at redressing infringement of their rights, it is also a well-known fact that the judicial process in India is slow. Investor complaints should be brought under the purview of the Arbitration Act so that quick relief could be granted. Stock exchanges should be made the focal point for such arbitration process involving investor complaints.</p> <p><b><i>Banks</i></b></p> <p>Presently, the Government is the dominant owner of the Indian banking sector. The imposition of decisions by the dominant owner influences the shareholder value.</p> <p>In view of the growing shareholding by the public in the capital of public sector banks, it would be necessary to move amendments to the</p>

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	<p>Bank Nationalisation Act to provide for greater representation to the public shareholders at least in proportion to their shareholding.</p> <p>For infusing increased corporate governance in banks, shareholders should have the right to discuss, vote on, and approve the profit and loss account and the balance sheet, at the AGM of the banks. The relevant provisions of the Bank Nationalisation Act which does not provide for voting and approving the accounts by shareholders should be amended.</p>
<p><b>General Meetings</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>Processes and procedures for general shareholder meetings should allow for equitable treatment of all shareholders.</p> <p><i>LSE Combined Code</i></p> <p>Board should use the AGM as the primary means of direct communication with shareholders. Notices for AGMs should be sent to shareholders at least twenty working days before the meeting.</p> <p><i>SEBI</i></p> <p>The AGMs of the company should not be deliberately held at venues or the timing should not be such which makes it difficult for most of the shareholders to attend. The company must also ensure that it is not inconvenient or expensive for shareholders to cast their vote.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies</i></p> <p>The Companies Act mandates companies to have an AGM of their shareholders. The notice of the AGM has to be posted to all shareholders 21 days prior to the meeting, containing the company's reports and accounts, the agenda, all resolutions that are to be discussed in the meeting and a proxy form.</p> <p>Shareholders accounting for at least 1/10<sup>th</sup> of the paid-up share capital have the right to call an extraordinary general meeting. If the request is supported by reason and signatures, its incumbent upon the board to announce such a meeting and hold it within 45 days.</p> <p><i>Banks</i></p> <p>As per RBI's instructions, banks should hold AGMs where the bank is having its head/corporate office.</p> <p><i>Public Sector Companies</i></p> <p>The provisions of the Companies Act apply to Government companies also.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>The AGMs should be held at the town/city, where the CEO of the company is located/headquartered. The company should also hold one or two general meetings of shareholders a year by rotation at different places where large number of shareholders reside so that common</p>

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	<p>shareholders have opportunities to interact with the board and management of the company. The timing of such meetings should be convenient from shareholders' point.</p>
<p><b>Evaluation of Governance Disclosures</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>Not covered</p> <p><i>LSE Combined Code</i></p> <p>Companies should have a free hand to explain their governance policies in the light of the principles, and shareholders and others must evaluate the company's statement and explanations.</p> <p>Institutional shareholders should eliminate trivial variations over investment criteria that they may apply to issues of corporate governance and company performance, provide their clients with their complete voting record and monitor results of their voting intentions and influence.</p> <p><b><i>SEBI</i></b></p> <p>There should be a separate section on corporate governance in the annual reports of companies, with detailed compliance report on Corporate Governance. Non-compliance of any mandatory recommendation with reasons thereof and the extent to which the non-mandatory recommendations have been adopted should be specifically highlighted. The company should arrange to obtain a certificate from its auditors regarding compliance of mandatory recommendations and annex the certificate to the directors' report to be sent to all shareholders and the stock exchanges.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>No specific provisions exist.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>Companies should make special efforts in explaining company's governance policies, business ethics, and the environment and other public policy commitments. The disclosure should help shareholders and others to evaluate the company's statement and explanations. All large companies should arrange to get evaluated the quality of all their disclosures to the shareholders and the stakeholders. This evaluation job should be entrusted to an independent agency, which can audit the quality of disclosures. This evaluation report should be sent to all the shareholders.</p>
<p><b>Shareholder Resolutions</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles / LSE Combined Code / SEBI</i></p> <p>Not covered.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies / Public Sector Companies</i></p> <p>There are two classes of resolutions- ordinary and special. Ordinary</p>

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	<p>resolutions, such as, election and removal of directors, appointment of external auditors, remuneration of directors, payment of dividend, approval of annual accounts and the routine matters relating to the conduct of a company, are passed with the approval of more than 50 per cent of the shareholders present and voting. Special resolutions, such as, buy-back of shares, proposed merger or de-merger, changing the name of the company, altering the memorandum and articles of association or the registered address of the company from one state to another, voluntary winding of the company and similar decisions require special resolutions with the approval of 75 per cent of those present and voting.</p> <p>These apply to Government companies also.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>Shareholders have a right to participate in all major decisions. However, the small shareholders often find it difficult to get their voice to the board. The recent amendment to the Companies Act has not made it mandatory to have representative of the small shareholders on the board. Therefore, through suitable legislative amendments, the voting rights of small shareholders should be strengthened by introducing a provision for compounding of voting rights for small shareholders so that they are able to get their representative elected to the board.</p>
<b>FINANCIAL REPORTING, TRANSPARENCY AND AUDIT</b>	
<p><b>Financial Reporting</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters including the financial situation, performance, ownership and governance of the company.</p> <p>Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users.</p> <p><i>LSE Combined Code</i></p> <p>Both directors and auditors should be required to make formal statements of their audit reporting responsibilities.</p> <p><i>SEBI</i></p> <p>Information like quarterly results, and presentations by companies to analysts may be put on the company's web-site or may 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. (Mandatory Recommendation)</p> <p>Half-yearly declaration of financial performance, including summary of the significant events in last six months, should be sent to the household of each shareholder. (Non-mandatory Recommendation)</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies</i></p> <p>All companies are required to prepare audited annual accounts, which are first submitted to the board for approval, then filed with the</p>

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	<p>Registrar of Companies.</p> <p>The annual accounts must contain in the prescribed format the balance sheet, profit and loss account, their schedules, the auditor's notes on accounts and qualifications (if any), together with the directors' report for the year.</p> <p><b>Banks</b></p> <p>All banks are required to prepare audited annual accounts which contain in the prescribed format the balance sheet, profit and loss account, their schedules, the auditor's notes on accounts and qualifications (if any), together with the directors' report for the year.</p> <p><b>Public Sector Companies</b></p> <p>All companies are required to prepare audited annual accounts which contain in the prescribed format the balance sheet, profit and loss account, their schedules, the auditor's notes on accounts and qualifications (if any), together with the directors' report for the year.</p> <p>Both in regard to statutory corporations and Government Companies, it has been prescribed that the Annual Report together with the audited accounts and audit report for any particular year should be laid on the Table of the Parliament within 9 months of the close of the accounting year.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies / Banks / Public Sector Companies</i></b></p> <p>The boards of all types of companies should ensure the integrity and consistency of their reports and they should meet the financial reporting standards in letter as well as in spirit.</p> <p>In addition to presenting information, which is already being presented as part of the annual accounts, they should also report certain key financial ratios, which reflect the health of the company.</p>
<p><b>Disclosure and Transparency</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><b><i>OECD Principles</i></b></p> <p>Disclosure should include, but not be limited to, material information on the financial and operating results of the company; and material foreseeable risk factors.</p> <p>Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.</p> <p><b>BIS</b></p> <p>Transparency can reinforce sound corporate governance. Therefore, public disclosure is desirable in the following areas:</p> <ul style="list-style-type: none"> <li>• Board structure (size, membership, qualifications, and committees)</li> <li>• Senior management structure (responsibilities, reporting lines, qualification and experience)</li> <li>• Basic organisational structure (line of business structure, legal entity structure)</li> <li>• Nature of transactions with affiliates and related parties</li> </ul>

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	<p><b><i>LSE Combined Code</i></b></p> <p>The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.</p> <p><b><i>SEBI</i></b></p> <p>As shareholders have a right to participate in, and be sufficiently informed on decisions concerning fundamental corporate changes, they should not only be provided information as under the Companies Act, but also in respect of other decisions relating to material changes such as take-overs, sale of assets or divisions of the company and changes in capital structure which will lead to change in control or may result in certain shareholders obtaining control disproportionate to the equity ownership.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><b><i>Companies / Public Sector Companies</i></b></p> <p>Shareholders have a right to receive copies of balance sheet and auditors' report. (S.219)</p> <p>The balance sheet and profit and loss account should give true and fair view of the state of affairs of the company.(S.211)</p> <p>Under the provisions of the Listing Agreement, all listed companies are required to make detailed disclosures.</p> <p>The companies are legally bound to make timely disclosure of material and price sensitive information including material events having a bearing on the performance of the company to every stock exchange where they are listed and to the regulators.</p> <p><b><i>Banks</i></b></p> <p>The standards of banks' disclosures, generally, fall short of international standards. However, there has been some improvement in this regard. The Reserve Bank has mandated the disclosure of some of the essential strength indicators as also performance-related parameters as part of the Notes to the balance sheets of banks. The banks are also required to disclose their accounting policies. Moreover, they are required to disclose maturity pattern of loans and advances, investment securities, deposits and borrowings, etc.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies / Public Sector Companies</i></b></p> <p>At present, the continuous disclosure requirements for material events to be complied by the listed companies are governed by the listing agreement (Clause 36). Though the clause was introduced about two years ago, compliance of this clause by some companies has been slack primarily due to the absence of enforcement and penal mechanism for non-compliance with the listing agreement.</p> <p>Many corporates disseminate price sensitive information to a section of the public, namely, analysts or a section of the press, some of it informally. This information is not made available to the stock exchanges. The issuers of listed securities must disclose such</p>

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	<p>information simultaneously or in any case not later than 8.30 a.m. on the next day to the stock exchanges and issue appropriate press releases.</p> <p>Many times, substantial volatility in the price of the shares is observed when a piece of information pertaining to the company appears in the press. Sometimes, the piece of information could be a rumour or erroneously published. In such events, the company should issue a clarification to the stock exchanges and also issue press release to the newspapers either dispelling the rumours/reports or confirming/clarifying the same.</p> <p>All large listed companies should have a website, where they should put all information as the same is furnished to the stock exchanges, as also the information disseminated to a class of public, including analysts or the press reports.</p> <p>The intimation regarding the board meeting at which declarations on dividend or rights or bonus are due to be considered (Clause 19 of the Listing Agreement) should reach the stock exchange at least 7 days before the date of the meeting or simultaneously along with the notices of the meeting sent to directors, whichever is earlier. The following events/purposes may also be included for timely disclosures: any equity issue or equity linked issue, issue of shares to employees under ESOP/ESPS Scheme, stock split, consolidation, buy back of shares, merger, amalgamation, acquisition, hiving off, take over, voluntary winding up, etc.</p> <p><b>Disclosure of ownership:</b> stock exchange listing agreements require share ownership to be declared on the basis of individual promoters, DFIs, FIIs, mutual funds, foreign holdings, other corporate bodies, top 50 shareholders, and other shareholders. In addition, investors crossing the five per cent threshold must inform the relevant stock exchange and SEBI. The ownership classification used by Indian stock exchanges does not provide a transparent picture of share control due to the prevalence of complex cross-holdings across family or group controlled conglomerates. The shareholding pattern, in particular the shares of those in control of the management of the company, institutional investors, FIIs and mutual funds and other major shareholders must be disclosed.</p> <p>It is desirable that in its proposed information dissemination site on the Pattern of EDGAR in the US, SEBI may consider giving all the disclosures of all the companies and in particular small companies that cannot afford to create their own website.</p> <p><b>Banks</b></p> <p>Disclosure standards of banks in India need further improvement, which will reflect the affairs of the bank in a true and fair manner. In addition to disclosures which are required to be made as per RBI direction, banks should on their own disclose all material information relating to the true state of their affairs, their vision statements, future business strategies, etc. To bring more transparency, banks should disclose more information on risk management strategies and practices, transaction with affiliated and connected parties, classification of assets, off-balance items etc.</p> <p>In view of the diversification of activities of banks, it is essential to</p>

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	<p>present a fair view of the activities and the accounts of the subsidiaries of public sector banks. This would bring transparency and disclosure in the accounts of these banks at par with the private sector banks and other companies.</p> <p>All banks and particularly the bigger among them should have their own web-sites, where they should put all information for the benefit of the public, shareholders and depositors.</p> <p>The shareholding pattern, in particular the shares of institutional investors, FIIs and mutual funds and other major shareholders must be disclosed by the public sector and private sector banks.</p>
<p><b>Accounting Standards</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>Information should be prepared, audited and disclosed in accordance with high standards of accounting, financial and non-financial disclosures, and audit. The principles support the development of high quality internationally recognised standards, which can serve to improve the compatibility of information between countries.</p> <p><i>LSE Combined Code</i></p> <p>Audit reporting responsibilities go beyond the actual audit and embrace any price-sensitive report or statement made to outside parties; reporting on going concerns should be a requirement and accompanied with supporting assumptions and qualifications.</p> <p><i>SEBI</i></p> <p>Companies should be required to give consolidated accounts in respect of all its subsidiaries in which they hold 51% or more of the share capital. SEBI is in dialogue with ICAI to bring about changes in the accounting standard on consolidated financial statements.</p> <p>In cases of companies with several businesses, it is important that financial reporting in respect of each product segment should be available to shareholders.</p> <p><b><u>PROVISIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>The Institute of Chartered Accountants of India (ICAI) has introduced segmental accounting standards. It has released exposure draft on consolidated accounts by companies.</p> <p><b><u>ISSUES/RECOMMENDATIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>Banks and companies should be required to prepare and present consolidated financial statements including those of all its subsidiaries. There should be reasonably good disclosures about related entities where the parent is having 26% or more shareholding.</p> <p>They should also be required to prepare and present desegregated segmental information for each significant product or service segment (i.e. industry segment) and for each significant geographical market.</p> <p>They should provide reconciliation between the sum of the information on individual segments and the aggregated information in the financial</p>



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	<p>statements.</p> <p>With regard to related party transactions, they should prepare and present disclosure of related party relationships, whether or not there have been transactions between the related parties. They should also disclose the nature of relationship, type of transactions, and their elements necessary for understanding of financial statements.</p> <p>Companies should prepare and present the aggregate amount and period of defaults on repayment obligations on, loans, bonds, debentures and public deposits.</p>
<p><b>Internal Control</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>A key responsibility of the board is to ensure that appropriate systems of control are in place, in particular systems for monitoring risk, financial control, and compliance with the law.</p> <p><i>LSE Combined Code</i></p> <p>An annual review of the effectiveness of the company's internal controls over financial, operational and compliance matters should be conducted and reported to shareholders.</p> <p><b>BIS</b></p> <p>In banks there should be strong internal control systems, including internal and external audit functions, risk management functions independent of business lines, and other checks and balances.</p> <p><i>SEBI</i></p> <p>Audit Committee of the board to look into these aspects.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies</i></p> <p>The board of directors and shareholders oversee and monitor the management. This monitoring takes place through oversight of the audits and the company's accounts, which must reflect the true and fair view of the company's affairs. Directors can inspect these books together with the Registrar and government officials. Shareholders exercise the oversight function by appointing and removing independent auditors through a special resolution at the AGM.</p> <p><i>Banks</i></p> <p>Banks have reasonably good internal control systems; internal and external audit functions are the other checks and balances. A regulatory framework for risk management function in banks independent of business lines has recently been put in place. Banks are in different stages of implementation of risk management systems.</p> <p><i>Public Sector Companies</i></p> <p>The Government companies, in general, are yet to put in place satisfactory internal control mechanisms.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies / Public Sector Companies</i></p>

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	<p>An annual review of the effectiveness of the company's internal controls over financial, operational and compliance matters should be conducted and reported to shareholders.</p> <p><b>Banks</b></p> <p>With the increased complexity and volume of business, proper and effective internal control mechanism in banks should receive greater attention of the board.</p> <p>In banks, there should be much stronger internal control systems, including effective internal and external audit mechanisms, risk management functions independent of business lines, and other checks and balances.</p>
<p><b>Auditor Independence</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><b><i>OECD Principles</i></b></p> <p>An independent auditor should conduct an annual audit in order to provide an external and objective assurance on the way in which financial statements have been prepared and presented.</p> <p><b>BIS</b></p> <p>An important form of oversight in banks should be through independent risk management and audit functions.</p> <p>As the role of auditors is vital to the corporate governance process the importance of the audit process should be communicated throughout the bank. Board should take measures to enhance the independence and stature of auditors. The findings of auditors should be utilised in a timely and effective manner. Head auditor should report to the board and the audit committee in an independent manner.</p> <p><b><i>LSE Combined Code</i></b></p> <p>Not only should the auditors discharge their duties in total independence from personal interest or managerial interference, they should perform a regular review of their independence, along with their cost effectiveness and objectively.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><b><i>Companies</i></b></p> <p>The companies are required to have their annual accounts audited externally and signed by a certified chartered account.</p> <p>Shareholders have a right to appoint/remove auditor. The auditor is appointed at every AGM to hold office until next AGM.(S.224-225)</p> <p><b><i>Banks</i></b></p> <p>The audit functions are well developed in the banks.</p> <p>Appointment and removal of auditors by the boards of banks has to be with the prior approval of RBI.</p> <p>External statutory auditors present their report on the functioning of the bank to its board directly.</p> <p><b><i>Public Sector Companies</i></b></p> <p>Section 619 of the Companies Act lays down the procedure for the audit of accounts of Government companies. Sections 224 to 233 of</p>

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	<p>the Companies Act, which deal with appointment and remuneration of auditors, resolution for appointing/removing auditors, qualification/disqualification of auditors, powers/duties of auditors and signing of audit report, etc., do not apply to govt. companies.</p> <p>The auditor of a Government company is appointed by the Central Govt. on the advice of the Comptroller and Auditor General of India (CAG), who directs the manner in which the accounts of Government companies shall be audited. The audit report is submitted to the CAG, who comments upon or supplements the auditor's report. The comments of the CAG along with the audit report are placed before the AGM of the company.</p> <p>.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies</i></p> <p>Audit Committees should have say in the selection of auditors.</p> <p>Not only should the auditors discharge their duties in total independence from personal interest or managerial interference, they should perform a regular review of their independence, along with their cost effectiveness and objectively.</p> <p>As role of auditors is vital to the corporate governance process, the importance of the audit process should be communicated throughout the company. Board should take measures to enhance the independence and stature of auditors. The findings of auditors should be utilised in a timely and effective manner. The head of the audit firm should report to the board or the audit committee in an independent manner.</p>
<p><b>Stakeholder - Definition and Communication</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>The corporate governance framework should recognise the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises.</p> <p>The corporate governance framework should permit performance-enhancing mechanisms for stakeholder communication.</p> <p>Stakeholders who participate in the corporate governance process should have access to information necessary to fulfil their responsibilities.</p> <p><i>LSE Combined Code</i></p> <p>Not covered.</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>No provisions exist.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies / Public Sector Companies</i></p> <p>The board should have obligation, but not accountability to</p>

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	<p>stakeholders.</p> <p><b>Banks</b></p> <p>In principle, the bank's board should have obligation, but not accountability to stakeholders. However, depositors being the major stakeholders in banks, whose interests may not always be recognised, sound corporate governance should consider their interests and ensure that individual banks are conducting their business in such a way as not to harm interests of depositors.</p>
<p><b>Disclosures related to Management</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><b><i>OECD Principles</i></b></p> <p>Managers must disclose any material interests in transactions or matters affecting the corporation.</p> <p><b><i>LSE Combined Code</i></b></p> <p>Not covered.</p> <p><b><i>SEBI</i></b></p> <p>The annual reports of the companies should contain Management Discussions and Analysis, including discussions on matters 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, operational performance and material developments in HRD, industrial relations front. (Mandatory Recommendation)</p> <p>The management must disclose to the board all material, financial and commercial transactions, where they have personal interest that may have a potential conflict with the interests of the company at large. (Mandatory Recommendation)</p> <p><b><u>CURRENT PROVISIONS</u></b></p> <p><b><i>Companies / Banks / Public Sector Companies</i></b></p> <p>The decision regarding what should be published in the Annual Report is taken by the boards. Generally, the management discussion is not included in the Report.</p> <p>As per the Companies Act Directors' interests have to be disclosed periodically at least once in a year. This is mandated to ensure that there are no conflicts of interests when the board deals with financial matters pertaining to the company.</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><b><i>Companies / Public Sector Companies</i></b></p> <p>Some items, like outlook, risk and concerns and internal control systems and their adequacy, should be covered in the annual report of companies.</p> <p><b><i>Banks</i></b></p> <p>Banks may also be encouraged to make disclosures on senior management structure (responsibilities, reporting lines, qualifications and experience). The basic organisational structure may also be disclosed. Broad incentive structure (remuneration policies, executive compensation, bonuses, stock options).</p>

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<p><b>Disclosure of Compliance with recommendations</b></p>	<p><b><u>CODES AND PRINCIPLES</u></b></p> <p><i>OECD Principles</i></p> <p>Companies are encouraged to report on how they apply relevant corporate governance principles in practice.</p> <p><i>LSE Combined Code</i></p> <p>The Listing Rules of the London Stock Exchange contain a requirement for UK listed companies to make a disclosure statement in two parts in their annual report. In the first part of the statement, the company will be required to report on how it applies the principles in the Combined Code. In the second part of the statement, the company will be required either to confirm that it complies with the Code provisions or where it does not - provide an explanation.</p> <p><i>SEBI</i></p> <p>There should be a separate section on corporate governance in the annual reports of the companies, with a detailed compliance report on corporate governance. Non-compliance of any mandatory recommendation with reasons thereof and the extent to which non-mandatory recommendations have been adopted should be specifically highlighted. (Mandatory Recommendation)</p> <p>Company should arrange to obtain a certificate from the auditors of the company regarding compliance of mandatory recommendations and annex the certificate with the directors' report, which is sent annually to all the shareholders of the company. The same certificate should also be sent to the stock exchanges along with the annual returns filed by the company. (Mandatory Recommendation)</p> <p><b><u>ISSUES / RECOMMENDATIONS</u></b></p> <p><i>Companies / Banks / Public Sector Companies</i></p> <p>The extent of compliance with governance requirements should be disclosed in the Directors' Report.</p>

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