E-Book

Corporate Governance in India

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

Southern India Regional Council

Chennai

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This e-book has been authored by

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The Institute of Chartered Accountants of India

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
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FOREWORD

Corporate Governance is a set of internal controls, policy and procedures which form the framework of a company's operations and its dealings with various stakeholders such as customers, management, employees, government and industry bodies. The framework of such policies should be such as to uphold the principles of transparency, integrity, ethics and honesty. Corporate Governance is the soul of an organization and must be adhered to while indulging in any business practices.

It is a pleasure to share my happiness amongst the members and other stakeholders in bringing out an informative e-book on **Corporate Governance in India.**

This e-book provides insights on the meaning and importance of corporate governance, how the same has evolved over the years, recommendations by various regulatory bodies on Corporate Governance, principles and structure laid down for managing the corporate governance.

This e-book provides detailed knowledge on the essential elements for corporate governance, practice of good governance and the importance of 4 P's in achieving the same. It also outlines the detailed corporate governance structure, its impact on various stakeholders and having a strong Environmental Social and Governance (ESG) proposition. Professionals can also make use of this e-book to understand global scorecard of Corporate Governance.

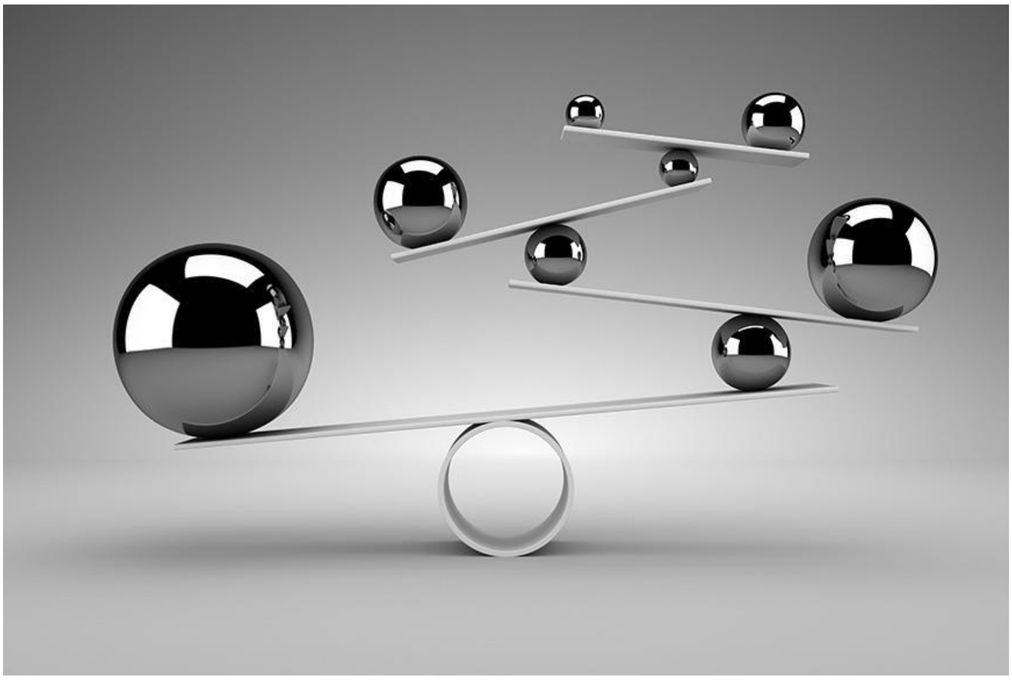
This e-book, one in a series of member centric publications planned by SIRC, aims to serve as a Handbook and Guide for the professionals who intend to practice a good and ethical corporate governance within their organization.

On behalf of SIRC, I wish to take the pleasant privilege of expressing my sincere gratitude and appreciation to CA. M K Sridhar, for sharing his rich experience and expertise on the Corporate Governance in India amongst our members through this e-book. I also take the privilege of thanking CA. Vijaysundar for reviewing the basic draft of e-book and adding value to the substance of the e-book.

Comments and suggestions on the e-book are welcome at sirc@icai.in

CA.K. JALAPATHI
Chairman, SIRC of ICAI

Corporate Governance in India



A Study

CONTENT

1. Introduction

The word governance comes from the Latin word "***gubanare***" whichmeans "**to steer**".

The meaning of **governance** is "the manner of directing and controlling the actions and affairs". Corporate Governance is the exercise of powers and actions to achieve goals of an organizational entity. Corporate Governance has variously been defined to mean: "*An internal system encompassing policies, processes and people, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities, with good business savvy, objectivity, accountability and integrity. Sound corporate governance is reliant on external market place commitment and legislation, plus a healthy board culture which safeguards policies and processes*" (by Gabrielle O'Donovan).

In India Corporate Governance guidelines - both mandated and voluntary - have evolved since 1998, thanks to the efforts of several committees appointed by the Ministry of Corporate Affairs (MCA) and the SEBI. The principal source of governance is the Companies Act, Rules published under the Companies Act, and Notifications and Circulars issued by the Ministry of Corporate Affairs (MCA). Limitedliability partnerships (LLPs) are governed by the Limited Liability Partnership Act, 2008.

Listed companies in India are also required to comply with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "SEBI Regulations") and the listing agreement with the stock exchange onwhich the company may be listed.

Prior to 2019, CSR spending was voluntary. After the 2019 amendment to the 2013 Act, it has been made a mandatory obligation for companies. As per the new amendment, a company has to transfer the unspent CSR amount to a government specified fund. Non-compliance to this requirement will attract penalties for the company and defaulting officers.

Also, the new CSR rules enacted in 2021 have laid down the reporting mechanism for companies. Companies to whom CSR is applicable have to prepare an annual report on CSR in the prescribed format and attach it to its board report. Companies exceeding the specific threshold of CSR obligations have to undertake an impact assessment by an independent agency. CSR activities have to bedisplayed on the company's website.

In 2009, India’s MCA published the Corporate Social Responsibility Voluntary Guidelines (the "CSR Guidelines"), recommending that all businesses formulate a CSR policy, and since then sustainability disclosures have formed an integral part of the best practices of any company that wants to develop and demonstrate its green or community-oriented credentials.

In 2011, the CSR Guidelines were superseded by the expanded and more detailed National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business, containing comprehensive principles to be adopted by companies as part of their CSR activities. This introduced a structured reporting format for business, requiring certain specified disclosures and demonstrating the steps taken by companies to implement the environmental, social and governance (ESG) principles.

The NVGs define nine principles of responsible business conduct to be adopted by companies as part of their practices and mandates for preparing a business responsibility report by providing stakeholder information about the initiatives, impacts and future course of action across ethics, transparency and accountability, product life- cycle sustainability, employees' well-being, stakeholder engagement, human rights, environment, public advocacy, inclusive growth and customer value.

In 2019, the NVGs were revised and the MCA formulated the National Guidelines on Responsible Business Conduct (NGRBC). The NGRBC have been designed to assist businesses in fulfilling their regulatory compliance requirements. The NGRBC are made applicable to all businesses, irrespective of their ownership, size, sector, structure or location. These new guidelines containing precise pillars of business responsibility (called principles), accompanied by a set of requirements and actions that are essential to the operationalisation of the principles, referred to as the "core elements". The principles highlighted in the NGRBC are set out below:

- businesses should conduct and govern themselves with integrity in a manner that is ethical, transparent and accountable;
- businesses should provide goods and services in a manner that is sustainable and safe;
- businesses should respect and promote the wellbeing of all employees, including those in their value chains;
- businesses should respect the interests of and be responsive to all their stakeholders;
- businesses should respect and promote human rights;
- businesses should respect and make efforts to protect and restore the environment;
- businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsibleand transparent;
- businesses should promote inclusive growth and equitable development; and
- Businesses should engage with and provide value to their consumers in a responsible manner.

(https://practiceguides.chambers.com/practice-guides/corporate-governance- 2021/india - Wakhariya & Wakhariya)

Indeed, it is fair to say that in terms of norms, guidelines and standards set for the board of directors, financial and non-financial disclosures and information to be shared by the management to stakeholders and the wider public, Indian corporate governance standards rank among the best in the world.

a. National Task Force

Recognising the importance of Corporate Governance for the protection of investor interest, promotion of transparency, the need to move towards international standards for disclosures of information by the corporate sector leading to high level of public confidence in business and industry, the Confederation of Indian Industries initiated by setting up a national task force under Rahul Bajaj in 1995 and came out with a voluntary code called “Desirable Corporate Governance” in 1998.

The important recommendations:

a) The number of or percentage of independent directors inBoard
b) Limit on the number of directorship one can hold in listedcompanies
c) Non-executive Directors competency requirement
d) Limits on Commission payable to a MD
e) Active participation of directors in affairs for re-appointment
f) Audit Committee requirement for threshold meetingcompanies
g) Key Information Report
h) Additional Shareholders Information for Listed Companies
i) Compliance Certification by CEO & CFO
j) Credit Rating
k) Fixed Deposit Defaults related restrictions.

b. Kumaramangalam Birla Committee

In 1999 the Securities and Exchange Board of India (SEBI) set up Kumaramangalam Birla Committee to raise the Corporate Governance standards in Indian Context. The Salient Mandatory and non-Mandatory recommendations made by the Committee are:

Mandatory recommendations

a) Threshold change
b) Optimum Composition for Executive and Non-ExecutiveDirectors
c) Audit Committee composition specifics
d) Remuneration Committee

e) Board Procedure recommendations as to the minimum number of meetings in a year, necessary matters to be considered, limitation on the number of committees one can be a member
f) Management Discussions and Analysis Report and matters tobe covered thereunder
g) Information sharing with Shareholders

Non-Mandatory recommendations

a) Role of Chairman
b) Remuneration Committee of Board
c) Shareholders Rights for Half Yearly FinancialPerformance, Postal Ballot covering critical matters
d) Requirements related to Sale of Whole or Substantial partof the Undertaking
e) Corporate Restructuring
f) Further Issue of Capital
g) Venturing into New Businesses

c. Naresh Chandra Committee

In 2002 MCA appointed a high level committee to examine Corporate Audit and Governance issues called Naresh Chandra Committee. Their charter included, Auditor-Company relationship Their independence, adequacy regulations of oversight functionary bodies, role and effectiveness of independent directors and so on.
The Committee’s major recommendations are:

a) Appointment of auditors , Disqualifications for auditassignments;
b) Compulsory Audit Partner Rotation;
c) Auditor's annual certification of independence;
d) List of prohibited non-audit services;
e) Independence Standards for Consulting, Other Entities thatare Affiliated to Audit Firms;
f) Auditor's disclosure of contingent liabilities, disclosure ofqualifications and consequent action;
g) Proposed disciplinary mechanism for auditors;
h) Management's certification in the event of auditor'sreplacement;

i) Minimum board size of listed companies;
j) Disclosure on duration of board meetings/committeemeetings, Additional disclosure to directors;
k) Setting up of Independent Quality Review Board;
l) Remuneration of non-executive directors;
m) Exempting non-executive directors from certain liabilities;
n) Defining an independent director and the Percentage ofindependent directors, Training of independent directors;
o) Audit Committee charter and composition;
p) SEBI and Subordinate Legislation;
q) Corporate Serious Fraud Office; etc.

d. N R Narayana Murthy Committee

Also, in 2002, the SEBI constituted N R Narayana Murthy Committee, to evaluate and improve the Corporate Governance Practices as existed and to determine the role of companies in responding to rumour and other price sensitive information circulating in the market, in order to enhance the transparency and integrity of the market. The committee's recommendations in the final report were selected based on parameters including their relative importance, fairness, accountability and transparency, easeof implementation, verifiability and enforceability.

The **Key Mandatory** requirements are:

a) Improving the quality of financial disclosures, including deployment of proceeds from initial public offers, related party transactions
b) Requiring corporate executive boards to assess and disclose business risks in the annual reports
c) Introducing responsibilities on boards to adopt formal code ofconduct
d) The position of nominee directors
e) Strengthening the responsibilities of audit committee
f) Stock holder approval and improved disclosures relating to compensation paid to non-executive directors
g) Whistle blowers policy

The **Non-Mandatory** recommendations included:

a) Instituting a system of training of board members
b) Evaluation of performance of board members
c) Moving to a regime where corporate financial statements arenot qualified.

The Committee noted that the recommendations contained in their report can be implemented by means of an amendment to the ListingAgreement, with changes made to the existing clause 49.

e. National Foundation for Corporate Governance (NFCG)

Ministry of Corporate Affairs has set up a National Foundation for Corporate Governance (NFCG) in 2003, association with CII, ICAI and ICSI, as a not-for-profit trust. In 2010 Institute of Cost Accountants of India and National Stock Exchange and in 2013 IICA(Indian Institute of Corporate Affairs) were added as trustees
.It provides a platform to deliberate on issues relating to good corporate governance, to sensitise corporate leaders on importance of good corporate governance practices as well as facilitate exchange of experiences and ideas amongst corporate leaders, policy makers, regulators, law enforcing agencies and non- government organizations. The NFCG has a three-tier structure for its management, viz, the Governing Council under the Chairmanship of Minister of Corporate Affairs, the Board of Trustees and the Executive Directorate. NFCG had framed an action plan, which includes development of good corporate governance principles on identified themes i.e. (i) corporate governance norms for institutional investors, (ii) corporate governance norms for independent directors, and (iii) corporate governance norms for audit.

The MCA and SEBI, predominantly are involved in guiding the Corporate Governance initiatives through various enactments and regulations. SEBI with its Listing agreement – consisting of 55 Clauses presently – has Mandated guidelines and suggested Non- Mandated guidelines.

Listed companies in India are required to comply with the Corporate Governance requirements as specified in the Companies Act, 2013 and SEBI (Listing Obligations & Disclosure Requirements) Regulations,2015.

Environmental, Social, and Governance (ESG) reporting, Business Responsibility and Sustainability Report (BRSR) are further developments into the Corporate Governance, Integrated reporting framework, and Climate Related Financial Disclosures requirements are briefly covered in the following pages.

While most of the companies are compliant with the Law and the Regulations to a significant extent, some companies have taken extra efforts to go beyond what is required in the statute and have been more than compliant on the Corporate Governance Requirements.

The overwhelming majority of corporate India is well run, well regulated and does business in a sound and legal manner.

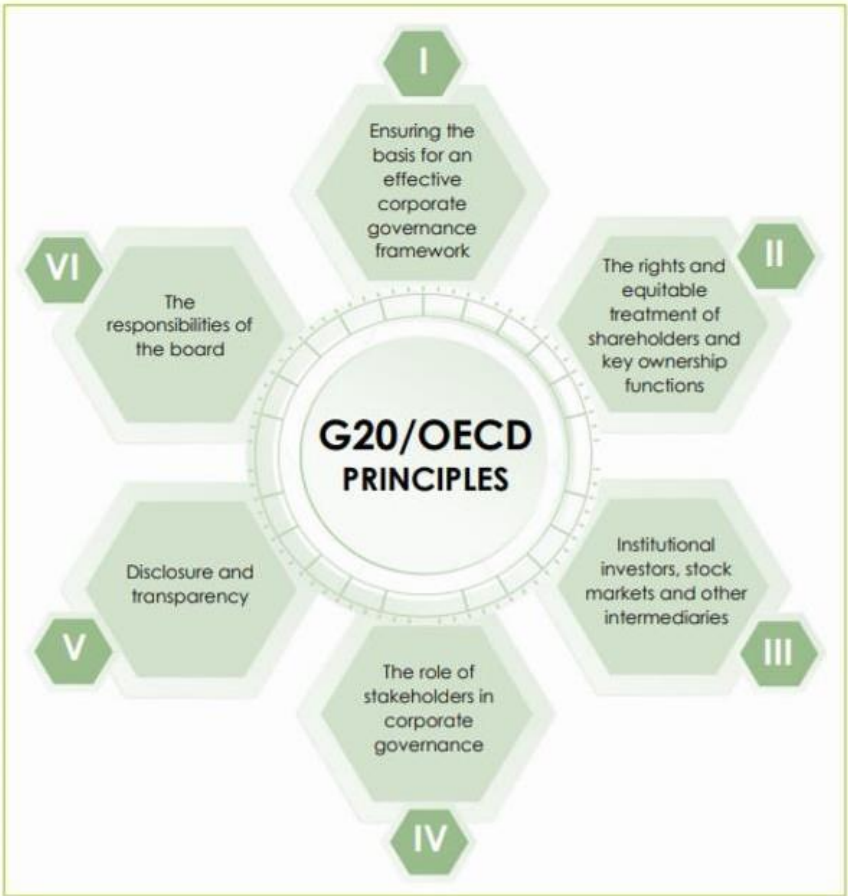
For reference a list of some of the major Corporate Governance failures that lead to investor wealth destruction is at Annexure A.

1. The Principles of Governance

The OECD Principles of Corporate Governance, endorsed by OECD Ministries have since become an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. They have advanced the corporate governance agenda and provided specific guidance for legislative and regulatory initiatives in both OECD and non-OECD countries.

These principles are broadly:

G20/OECD Principles of Corporate Governance



Source:http://www.oecd.org/daf/ca/Corproate-Governance-Principles-ENG.pdf

The principles capture the essential elements of corporategovernance:

• Principle I: Ensuring the basis for an effective corporate governance framework: The corporate governance framework must help promote transparent and fair markets, and the efficient allocation of resources.

• Principle II: The rights and equitable treatment of shareholders and key ownership functions: The corporate governance framework must identify basic shareholder rights and provide equitable treatment of all shareholders.

• Principle III: Institutional investors, stock markets and other intermediaries: The corporate governance framework must discloseand minimize conflicts of interest of market participants.

• Principle IV: The role of stakeholders in corporate governance: Thecorporate governance framework must encourage active co-operation between companies and their stakeholders.

• Principle V: Disclosure and transparency: The corporate governance framework must facilitate disclosure of material information to aid in informed decision-making.

• Principle VI: The responsibilities of the board: The corporate governance framework must ensure effective supervision by the board and enhance the board accountability to stakeholders.

The Practices of good governance can be represented as 4 Pillars,incorporating:

1. **Vision & Mission:**

   a. **Direction:** what business are we in, what are we trying to achieve and what are the values and principles that frame the way we do business? The board is responsible for these key strategic issues and for proving leadership in establishing the right culture to drive the performance of the business. Without clear direction, the organisation will flounder and likely never to realise its long term goals and potential.

b. **Viability & sustainability:** a key priority in today's dynamic, ever changing environment. Is the business built on a foundation that provides relevant, client focused services/products and is there a market that will pay a fair price to enable the organisation to sustain its activities over the medium term at least? Are the assumptions upon which the business model is based upon tested on a regular basis to ensure viability can be maintained? Does the board continually challenge itself on these most important matters?

2. **Stakeholder engagement:** Do the organisation in general and the board in particular, understand who the key stakeholders are, how they interact with the business and how they are engaged with to ensure the best outcome for the organisation? Is stakeholder engagement included in the annual agenda and strategic plan?

3. **Compliance and Management**

a. **Compliance:** does the organisation have a culture of compliance that" it is the right thing to do rather than something that must be done to avoid penalties?" Is a register in place to assist in compliance management and to provide evidence to the board of how this is being managed within the organisation?

b. **Risk management:** does the organisation have a risk management plan in place, is this reviewed over the year and updated on an annual basis? Does the board have a discussion each year on its appetite for risk, how this impacts on its risk management plan and how this will be managed during the year? Is there a business continuity plan in place?

c. **Performance management:** the organisation, the CEO and the board itself – how is performance managed for each of these? Does every board member have a real understanding of how the organisation is performing both historically and in terms of lead indicators? Does the board have a system in place to monitor the performance of the CEO and an opportunity to provide mutual feedback on an annual basis? Does the board review its own performance and seek ways to enhance its own functioning?

4. **Professional development & succession:** are resources allocated for ongoing professional development of the board

and is there an annual plan in place that demonstrates this has been thought about within the context of the board's needs? Is there a plan in place for board renewal that both retains knowledge and experience and ensures appropriate representation?

The 4 P's of Corporate Governance achievement are broadlyclassified into:

People	Purpose	Process	Performance
Shareholders	Vision	Business Processes	Bench Marks
Investors	Mission	System Processes	Measurement
Employees	Objectives	Organisation Processes	Analysis
Lenders	Strategy	Integration	Diversification
Suppliers	Plans	Supply Chain	Quality Assurance
Customers	Operational Challenges	Resource Plans	Compliance confirmation
Society		Energy optimisation	Whistle Blowers protection
Auditors		Risk Mitigation	
Law enforcers		Crisis Management	
		Compliances	

People

They are people who help and participate to run the company. People including investors, consumers, staff, lenders, companies, government and society as a whole are the stakeholders. The internal stakeholders of an organization must be willing to work, employee-oriented and ethical in their approach and meet the expectations of the external stakeholders in an unbiased manner.

The administration should be fair and result-oriented. The management of the company needs to incorporate ethical principleslike honesty and integrity in the business. Cordial partnerships and their involvement in decision-making minimize conflict areas among various stakeholders.

Purpose

In the intent of a company, the management of a business should belegal, ethical and transparent. All stakeholders should be notified and aware of the intent. As time and circumstances change, the aim should be suitably adjusted or modified. The functions specified should be tangible and operational. The concept of intent contributes to a company's vision and mission. The direction is then taken to identify a company's strategy and comprehensive action plans, by the Board of Directors duly supported by the Management.

Process

Clearly defined and documented Business and Management processes. Management of processes covers resource control, management of companies, supply chain management, energy management, marketing management, data management, risk management, and Project management. The management of processes involves how they organize and generate the predetermined results. There should be identified control parameters and mechanisms to show the areas in which these processes are deficient, and possible corrective measures executed. The plans and processes are regulated by different rules and laws that require enforcement in the country.

Performance

The standards of output should be set and communicated to ensure that everyone knows what is expected in the chain. The effects should be undisputedly defined transparently measurable. Standard measures contribute to operational efficiencies and vulnerabilities at different stages. The metrics of success may be made on the monetary transactions in an organization such as the productivity of assets or the supply chains.

The core concepts Corporate Governance can be summarised as:

a. Transparency

Transparency leads to sufficient reporting without undermining the interest of the client. This needs the clarification of strategies and actions of the company for those to whom it is accountable. The Financials are prepared in accordance with IFRS, registry filings are up-to-date, high quality Annual Reports are published, Web based disclosure in place and timely accuratedisclosures of all material matters are made.

b. Rule of law

Understand and abide by the various Rule of Law enacted. Anticipate future requirements and prepare well in time to ensure adherence.

c. Participation

Educate and involve all stakeholders in a fair manner while conducting the business.

d. Responsiveness

Respond in a timely, transparent and fair manner

e. Responsibility.

Management Board is liable to shareholders and shareholders are liable to the Management Board. Responsibility gives success impetus.

f. Equity

Being fair and practice equity.

g. Ethics

Deviation from ethical values compromises the corporate culture and the interests of the stakeholders. Upholding of the ethical principles by a corporation enhances its value. Practice Gender ethics, have and implement clear Sexual Harassment and Discrimination policies. Implement effective anticorruption policies. Practice Environmental ethics which is the ethical relationship between us as human beings and the natural environment.

h. Efficiency and Effectiveness

Perform effectively and efficiently. Benchmark practices and strive to better.

i. Independence

Act independently and enable others to act independently. Protect the independence of Whistle blowers.

j. Sustainability

In recent times, adapting to and mitigating climate change impact, inclusive growth and transitioning to a sustainable economy have emerged as major issues globally. There is an increased focus of investors and other stakeholders seeking businesses to be responsible and sustainable towards the environment and society. In addition to the business being sustainable in a manner to achieve the intended objectives, these aspects also need to be considered andbuilt in.

k. Accountability, Fairness to all Stakeholders

As seen, the Board of Directors are in trusteeship of investors and as such they are accountable to the shareholders and to all the stakeholders. With power comes responsibility and with trusteeship comes accountability. There should be fair and clear accountability towards all the stakeholders.

l. Trusteeship

In the board of directors there is a trusteeship concept, which needs to work to protect and enhance the interests of shareholders and other stakeholders.

m. Empowerment

This actually confers decision-making powers at the most important organizational levels to stimulate creativity and innovation within the company.

n. Oversight

This means that a checks and balances program exists. It will avoid abuse of power and make the managementof change and risks timely and effective.

o. External Audit

It must be independent and penetrating.

p. Regulatory Regime

There must be an appropriate regulatory regime to back these obligations.

q. Whistle blowers policy

Companies should adopt a policy for Whistle blowers. Anonymous and in case of exposure, protection to be ensured for the whistle blowers.

4. Corporate Governance structure

A company is an artificial person created by law, having separate entity, with a perpetual succession and common seal, is an artificialbeing, invisible, intangible, existing only in contemplation of the Law.

Shareholders and stakeholders of a company do not run thecompany. The directors do. All Board members occupy fiduciarypositions. They are expected to act always in the best interests ofthe entity they lead should practise quality governance whichinvolves fairness, accountability, responsibility and transparency ona foundation of intellectual honesty. The role of the Chief Executive Officer and management is to run the business of thecompany and the role of the board of directors is to overseemanagement. Given these different roles and responsibilities, leadership of the board should be separated from leadership ofmanagement.

The only principal way in which directors make themselves accountable to the shareholders is through communicating and disclosing information about the company and its business performance to them. Investors hold back from investing and share value will drop if there are doubts about the honesty and transparency of how information about the company is collected anddisclosed.

Information technology has taken over centre stage on how data and information about companies are recorded, preserved and transmitted. Accordingly companies should have information technology frameworks in place to ensure complete, timely, relevant, accurate and accessible IT reporting firstly from management to the Board and secondly by the Board to shareholders and stakeholders in the integrated report. Accordingly Boards of entities must ensure that there is an IT Governance Charter and policies are established and implemented in terms of that Charter. The Boards of companies should delegate to their management the responsibility for establishing and implementing the IT Governance framework through charters and plans of action. Effective IT Frameworks and policies as well as the processes, procedures and standards that these evolve, should be implemented with a view to minimizing risk, deliver value, and ensure business continuity and assist the company to manage its resources efficiently and cost effectively.

The Board of Directors(BOD) are supported by the CEO and the Management of the company including the Company Secretary. The BOD also forms various committees (both Mandatory and non-Mandatory) among the Directors which supports them in the Governance process. The BOD should ensure the Management and the Committee Members have the necessary skills viz.,

Managerial skillsTechnical Skills
Human Resources SkillsConceptual skills
Diagnostic skills Communication skills Political skills

for effective discharge of the responsibilities entrusted on them.Board Effectiveness

- Board Composition
- Gender Mix
- Board Skills
- Training of Directors
- Responsibilities of Board
- Board and Committee composition
- Separation of Roles
- Director Remuneration
- Board Evaluation
- Succession PlanningShareholder

Management

- Stakeholder Engagement
- Board Attendance of AGMs

- Quality of Shareholder meetings
- Investor Grievance Policies
- Conflict of Interest
- Related Party Transactions
- Voting on Resolutions
- Dividend Policy DisclosuresAudit Quality

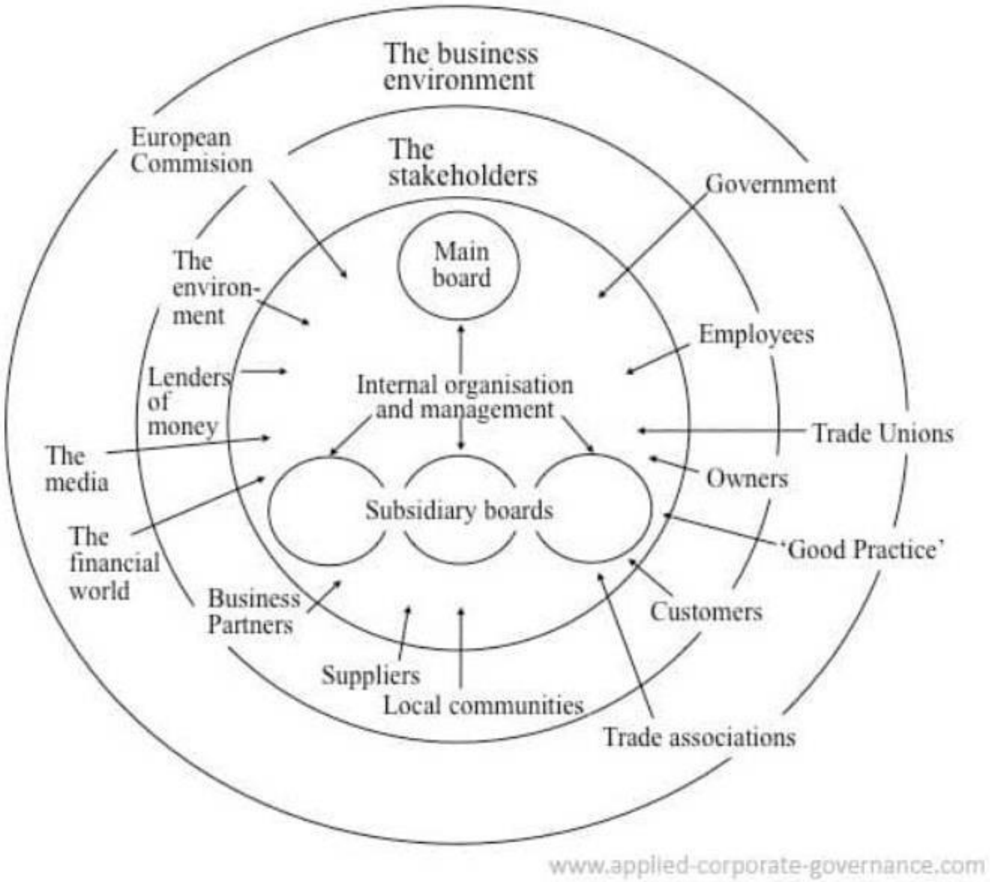
- Financial Reporting
- Ownership Structure
- Disclosure and Transparency
- Auditor Experience
- Audit Integrity
- Company Filings
- Risk Management
- Dividend Pay-outs and PoliciesStakeholder

Engagement

- Investor Engagement
- Supplier Management
- Relationship with Creditors
- Related Party Transactions
- Employee Welfare
- POSH
- Whistle blowers Policy
- Conflict of Interest and other disclosures
- Corporate Social Responsibilities
- Corporate Governance
- Business Responsibility initiativesExecutive Remuneration

- CEO Compensation
- Pay vs Performance
- Fixed Vs Variable Components

Pressures on a company



Corporations are always concerned about the interest of the stakeholders of the corporation. Stakeholders also take care about social causes and the commercial value of society in relation to different interest areas of the stakeholders. The success of different corporations is dependant on the operations of the organizations, which are performed to provide profit to the stakeholders of the corporation. Stakeholders of a corporation are of four types:

Primary social stakeholder: These are those stakeholders who have direct relations with the corporation. The presence of these stakeholders in the corporation can affect the progress of the corporation.

Primary non-social stakeholder: These are also directly related to the corporation, but they are never present in the corporation as primary social stakeholders.

Secondary social stakeholder: These are those stakeholders who are not directly related to the corporation but changes in these stakeholders can affect the corporation.

Secondary non-social stakeholder: These are those stakeholders who are not related to the corporation and can rarely affect the corporation.

Primary Social Stakeholder	**Primary non-Social Stakeholders**
Investors Employees Lenders Customers Suppliers Business partnersGlobal Citizen Local Communities	Natural Environment Future Generation
Secondary Social Stakeholders	**Secondary non-Social Stakeholders**
Government Society Unions Media and CommunicatorsTrade Bodies Competitors Religious pressure group(Halal / Vegan etc)	Environmental pressure Group Animal Welfare pressure Group

The responsibility an individual assumes when he became charged with governance of an entity is considerable and one that should only be taken with a clear understanding of, and commitment to, fulfilling this responsibility to the best of their ability foremost for the stakeholder interest. Having a clear understanding of the principles and practices of good governance will enhance the performance of both the individual and the organisation.

Five Golden Rules of leading corporate governance practice are:

1. **Ethics:** a clearly ethical basis to the business
2. **Align Business Goals:** appropriate goals, arrived at through thecreation of a suitable stakeholder decision making model
3. **Strategic Management:** an effective strategy process whichincorporates stakeholder value
4. **Organisation:** an organisation suitably structured to effect goodcorporate governance
5. **Reporting:** reporting systems structured to provide transparencyand accountability

Source:https://www.applied-corporate-governance.com/best-corporate- governance-practice/importance-of-corporate-communication/

5. Environmental, Social and Governance (ESG)

ESG is a business review of a company's economic, environmentaland social impacts, caused by everyday business operations and activities.

Source: Irisbusiness.com-esgreporting

ESG reporting was limited in a way through BRR reporting and CSR (Corporate social responsibility) reporting.

Business Responsibility Reporting(“BRR”) is a report (part of the annual report) submitted to Indian stock exchanges by the top 1000 listed entities by market capitalization. Non-submission of BRR is considered as a violation of Clause 55 of the Equity Listing Agreement.

BRR reporting philosophy was to make the listed company accountable towards stakeholders and also at the same time to be environmentally sustainable.

In May 2020, Committee on Business Responsibility Reporting developed and recommended Business Responsibility and Sustainability Report (BRSR) be integrated with the MCA21 portal. SEBI (under the guidance of MCA) in March 2021 made BRSR reporting applicable to the top 1000 listed entities (by market capitalization). New disclosure will be made in the format of the Business Responsibility and Sustainability Report (BRSR), which is a notable departure from SEBI's existing Business Responsibility Report and a significant step toward bringing sustainability reporting up to existing financial reporting standards.

The new BRSR format is based on the nine principles of the Indian government's "National Guidelines on Responsible Business Conduct" (the "RBC Guidelines"), which are intended to define responsible business conduct for Indian companies. The RBC Guidelines are driven by leading international standards and practices including the UN Guiding Principles on Business and Human Rights, UN Sustainable Development Goals, the Paris Agreement and the ILO Core Conventions. The principles address a range of sustainability matters including business ethics and transparency, human rights, environmental safety and fair labour practices.

Reporting under each principle is divided into essential indicators, which are mandatory obligations, and leadership indicators, which operate on a voluntary basis. Some of the key disclosure requirements (under either essential or leadership indicators) are tabulated below:

Aspects	Disclosure requirements	Principles
General	• An overview of the company's material ESG risks and opportunities and approach to mitigate or adapt to the risks, together with relevant financial implications • Sustainability related goals and targets and related performance • Management structures, policies and processes relatedto sustainability	General management and process disclosures
Environment	• Resource usage (energy and water) and intensity metrics • Air pollutant emissions • Greenhouse gas emissions (Scope 1, Scope 2 and Scope 3) • Waste generated and waste management practices • Impact on bio-diversity	**Principle 6**: Businessesshould respect and make efforts to protectand restore the environment **Principle 2**: Input material sourcing, usage of reuse/recycleinputs
Social	• Employees ○ Gender and social diversity including measures for differently-abled employees ○ Turnover rates ○ Median wages ○ Welfare benefits to permanent and	**Principle 3:** Businessesshould respect and promote the well-beingof all employees, including those in theirvalue chains **Principle 5**: Businessesshould respect and promote human rights

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Occupational healthand safety
Trainings</td><td></td></tr>
<tr><td></td><td>Communities
Social Impact Assessments
Rehabilitation and Resettlement
Corporate Social Responsibility</td><td>Principle 7: Affliationwith chambers

Principle 8: Businessesshould promote inclusive growth and equitable development</td></tr>
<tr><td></td><td>Consumers
Product labelling
Product recall
Consumer complaintsin respect of data privacy, cyber security etc</td><td>Principle 9: Businessesshould engage with andprovide value to their consumers in a responsible manner</td></tr>
<tr><td>Governance</td><td>Training on the principles in the RBCGuidelines for members of the Board, senior managers and employees
Anti-corruption andanti-bribery policies
Awareness programs conducted for value chain partners on theprinciples in the RBCGuidelines</td><td>Principle 1: Businesses should conduct and govern themselves with integrity, and in amanner that is Ethical,Transparent and Accountable.

Principle 4: Stakeholders interestprotection</td></tr>
</table>

The new reporting requirements promote transparent, standardized disclosures on ESG parameters and sustainability-related risks and opportunities among listed companies in India. This approach will help companies better demonstrate their sustainability objectives, position and performance to the market, resulting in long-term value creation and increasing the ability of investors to make informed ESG-related decisions.

Top 50 ESG cos have gained 131% since Covid outbreak while Nifty is up 117%: Acuite data

ESG Emerges a Winner on D-St too, Set to Gain Further Traction

Saikat.Das1@timesgoup.com

Mumbai: ESG is very much the 'in' thing in investing these days – across asset classes.

Sample this: Since the pandemic began, returns from Top 50 ESG-compliant companies are 131%, compared with the 117% yield on Nifty 50, show data from Acuite ESG Research. The period considered is between April 1, 2020 and October 11, 2021.

ESG constituents such as TCS, HCL Technologies, Larsen & Toubro, Adani Transmission, Adani Power, Tata Power and Ambuja Cements were rewarded for their environment-friendly steps.

"ESG (environmental, social and corporate governance) does not remain in books anymore but is a reality now with global investors offering incentives to compliant borrowers," said Sankar Chakraborti, CEO at Acuite ESG Ratings. "Indian companies have woken up to the reality, particularly during the pandemic period. ESG rewards investors and the theme will gain more traction."

Some of the lenders that scored high for their dedicated moves on ESG include State Bank of India, ICICI Bank, HDFC Bank, HDFC Ltd, IndusInd Bank, Kotak Mahindra Bank and Axis Bank.

Mahindra & Mahindra, ITC, Future Retail, Infosys, MindTree, Tata Steel and Tata Chemical are also included in the list of top 50 ESG companies.

"Adoption of ESG has significantly gone up among Indian companies," said Sharad Agrawal, executive director at Knight Frank. "Even foreign institutional investors (FIIs) are increasingly requiring ESG compliance, which is helpful to attract global investment. India Inc is fast emerging as a key player here, which in turn will help investors."

Total market cap of the ESG pack is estimated at ₹105.22 lakh crore as on October 11. So far this financial year, ESG-compliant company stocks returned 26% compared with 21% in Nifty 50.

New Delhi had initiated steps for ESG more than a decade ago when it made it mandatory for companies to carry out activities that address the betterment of society. It was formally called Corporate Social Responsibility, or CSR. Later, the National Voluntary Guidelines on Social, Environment and Economic Responsibilities of Business was introduced in 2011.

In 2019, the Ministry of Corporate Affairs formulated the National Guidelines on Responsible Business Conduct, which laid down nine principles of business responsibility.

Constantly Outperforming

	April 1, 2018	April 1, 2019	April 1, 2020	April 1, 2021	October 11, 2021
Nifty Value	10,212	11,669	8,254	14,845	17,945.95
M-Cap (₹)	405,147,451	558,252,659	455,773,395	836,620,947	1,052,270,897

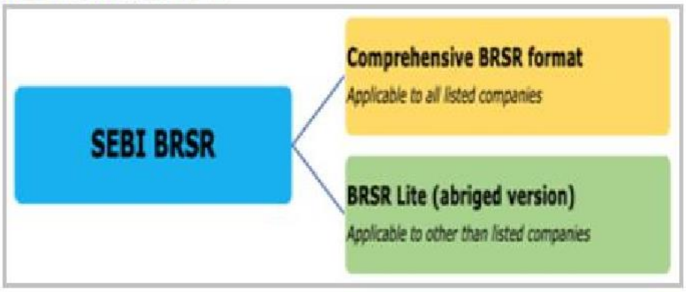
Return over	42 months (Apr 1, 2018 - Oct 11, 2021)	30 months (Apr 1, 2019 - Oct 11, 2021)	18 months (Apr 1, 2020 - Oct 11, 2021)	YTD Return (Apr 1, 2021 - Oct 11, 2021)
Nifty Returns	76%	54%	117%	21%
Top 50 ESG Returns as per Market Cap	160%	88%	131%	26%

The Economic Times, Bangalore 15 Oct 2021

BRSR reporting will be voluntary for FY 2021-22 and mandatory from FY 2022-23 for the top 1,000 listed companies by market capitalization. This is to provide companies subject to these requirements with sufficient time to adapt to the new requirements. Companies are encouraged, however, to adopted the BRSR early in order to be at the forefront of sustainability reporting. The new reporting requirements promote transparent, standardized disclosures on ESG parameters and sustainability-related risks and opportunities among listed companies in India. This approach will help companies better demonstrate their sustainability objectives, position and performance to the market, resulting in long-term value creation and increasing the ability of investors to make informed ESG-related decisions.

Going forward, the applicability is proposed to be extended to all companies and even LLPs in a span of 5 years starting from FY 2021-22.

The BRSR Framework



The BRSR framework consists of two separate formats.

Comprehensive BRSR

Applicable to the top 1000 listed entities in India and may be extended to other listed entities based on the threshold.

BRSR Lite

Applicable to non-listed entities which have a simple structure to encourage more companies to begin sustainability reporting. BRSR Lite is voluntary for adoption by non-listed entities.

BRSR | Summary of Disclosures and Principles

Section A and B focusses on “quantitative data” while Section C focusses on “qualitative data”

Sections	Disclosures
Section A: General information	Top 3 product details
	Plant/ office locations
	Employee/ workmen details
	Financials and Ownership
Section B: Policies	Policy and Management processes
	Governance, leadership and oversight
	Stakeholder engagement
	Communication
Section C (Principle # 1)	Complaints on bribery/ corruption
	Disclosure of interest by directors
	Training/awareness programs on principles
	Meeting with shareholders on responsible business conduct and sustainability
	Transparency and disclosure details
Section C (Principle # 2)	R&D and Capital expenditure
	Input materials and their sourcing
	Usage of recycled/reused inputs
Section C (Principle # 3)	Measures for the well-being of employee and workmen
	Payment of minimum wages and training to staff
	Details of unions and assessment of child labor, sexual harassment, and likewise
Section C (Principle # 4)	Protection of stakeholders interest
Section C (Principle # 5)	Protection of human rights (employees/ workmen/ differently-abled)
	Details of remuneration
	Number of complaints
Section C (Principle # 6)	Air and liquid emission details
	Solid waste generation and management
Section C (Principle # 7)	Affiliation with associations/ industry chambers
	Details of energy and water consumption
Section C| (Principle # 8)	CSR beneficiaries
Section C | (Principle # 9)	Details of products with a focus on value to consumers

Corporates should therefore consider expanding on the disclosures on those ESG Key Performance Indicators that are considered material to the nature of the business, beyond what is suggested in Appendix II.

Environmental	Social	Governance
Environmental Policy	Full time Employees	Gender diversity on Board
Environmental Impacts	Monetary and non - monetary benefits for employees	Board - Independence
Energy Consumption	Attrition Rate	Board - Separation of Powers
Energy Intensity	Training and development Hours	Voting Results
Carbon/GHG Emissions	Health care benefits	Gender Pay Ratio
Primary Energy Source	Human Rights Policy	Incentivized Pay
Renewable Energy Intensity	Human Rights Violations	Business Ethics and Code of Conduct
Water management	Child & Forced Labour	Supplier Code of Conduct
Waste Management	Gender parity ratio at Workforce	Bribery/Anti-Corruption Code
	Community and social Work	Corporate Governance
	Local Procurement	

(BSE Guidance Document on ESG Disclosures)

IASB has already initiated a discussion to establish IFRS-based ESG standards which will be made part of IFRS XBRL taxonomy, it's inevitable that an equivalent update in IND-AS and in MCA XBRL Taxonomy will occur.

It is ideal for SEBI/MCA to establish a data standard for ESG data reporting at the inception of ESG evolution in India. Data Standards like XBRL, iXBRL, SDMX have garnered immense importance in business reporting in recent years mainly due to the fact that they are open source, have globally accepted data structures, and have abundant software, human resources availability.

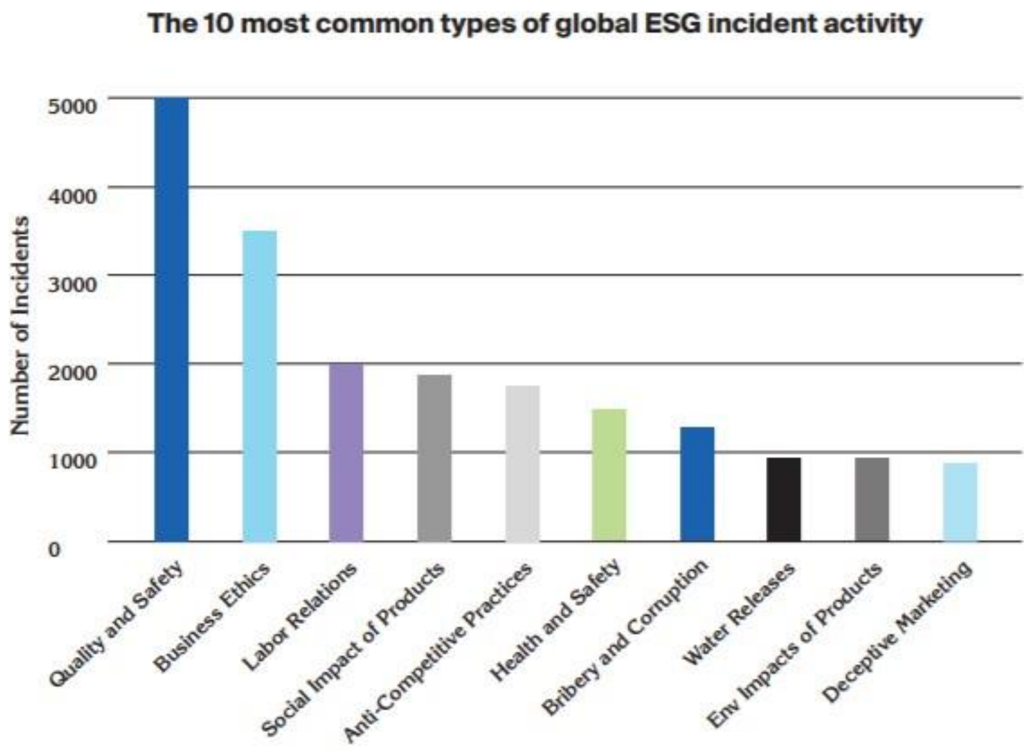
A strong environmental, social, and governance (ESG) proposition links to value creation in five essential ways.

	Strong ESG proposition (examples)	**Weak ESG proposition** (examples)
Top-line growth	Attract B2B and B2C customers with more sustainable products Achieve better access to resources through stronger community and government relations	Lose customers through poor sustainability practices (eg, human rights, supply chain) or a perception of unsustainable/unsafe products Lose access to resources (including from operational shutdowns) as a result of poor community and labor relations
Cost reductions	Lower energy consumption Reduce water intake	Generate unnecessary waste and pay correspondingly higher waste-disposal costs Expend more in packaging costs
Regulatory and legal interventions	Achieve greater strategic freedom through deregulation Earn subsidies and government support	Suffer restrictions on advertising and point of sale Incur fines, penalties, and enforcement actions
Productivity uplift	Boost employee motivation Attract talent through greater social credibility	Deal with "social stigma," which restricts talent pool Lose talent as a result of weak purpose
Investment and asset optimization	Enhance investment returns by better allocating capital for the long term (eg, more sustainable plant and equipment) Avoid investments that may not pay off because of longer-term environmental issues	Suffer stranded assets as a result of premature write-downs Fall behind competitors that have invested to be less "energy hungry"

Source: McKinsey – Five ways that ESG creates value Nov 2019

6. The Corporate Governance Score Card

BSE has collaborated with the International Finance Corporation (IFC) Washington, a member of the World Bank Group for developing a "CG Scorecard" for Indian corporates and decided to avail the expertise of Institutional Investors Advisory Services (IiAS), a leading proxy advisory firm in India to devise a questionnaire under the guidance of IFC and BSE.



Source: Sustainalytics. Understanding ESG incidents: key lessons for investors. December 2017.

www.issgovernance.com © 2021 ISS

Institutional Shareholder Services and/or its affiliates – has issued a ISS ESG Governance Quality Score Methodology Guideline in Sept 2021 covering the 6 CG principals of OECD covering widely held companies of India in the Asia Pacific Region.

The scorecard requires the evaluation to be conducted only on publicly available data. Sources of information will primarily include official company documents on the company website and stock.

ESG Criteria – Major Index Providers

Pillar	Thomson Reuters	MSCI	Bloomberg
Environmental	Resource Use	Climate Change	Carbon Emissions
	Emissions	Natural resources	Climate change effects
	Innovation	Pollution & waste	Pollution
		Environmental opportunities	Waste disposal
			Renewable energy
			Resource depletion
Social	Workforce	Human capital	Supply chain
	Human Rights	Product liability	Discrimination
	Community	Stakeholder opposition	Political contributions
	Product Responsibility	Social opportunities	Diversity
			Human rights
			Community relations
Governance	Management	Corporate governance	Cumulative voting
	Shareholders	Corporate behaviour	Executive compensation
	CSR strategy		Shareholders' rights
			Takeover defence
			Staggered boards
			Independent directors
Key metrics and submetrics	186	34	>120

Source: Refinitiv, MSCI, Bloomberg, FTSE, OECD assessment

The questions in the Scorecard have been grouped into four categories – each category corresponding to one of the principles recognised in the G20/OECD Principles as a measure of good corporate governance exchange filings. For a few specific questions, the verification sources may even include regulatory orders and media reports.

The Scorecard has been developed considering four of the six G20/OECD Principles (Principle II, IV, V, and VI), which focus directly on the company's governance practices. G20/OECD Principles I and III have been kept outside the purview of the model as they deal with the overall regulatory environment and the role of market participants in corporate governance – factors which are not in the control of the company. The underlying principles behind the Scorecard are listed as follows:

• The Scorecard must be able to provide a true and fair assessment of governance practices.

• The Scorecard should reflect globally recognized good governance practices.

• The Scorecard should factor in the Indian construct. However, to the extent possible, it should be universally applicable even for companies outside the Indian markets.

• The Scorecard should be constructive and encourage companies to adopt better practices beyond minimum compliance.

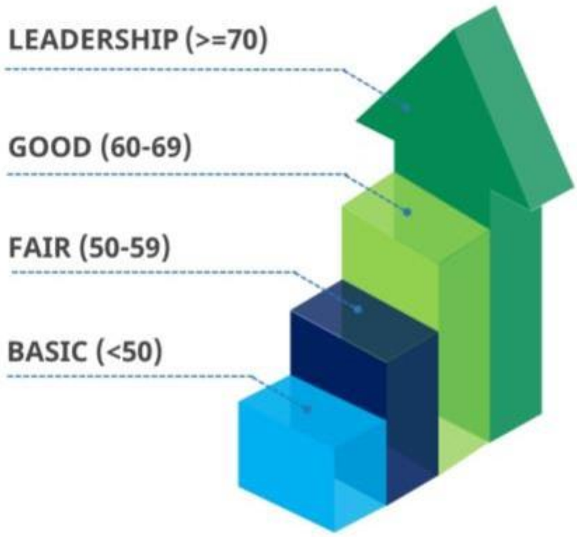
• The Scorecard should be reliable and have appropriate checks and balances to ensure credibility of the assessments.

SCORECARD MATRIX

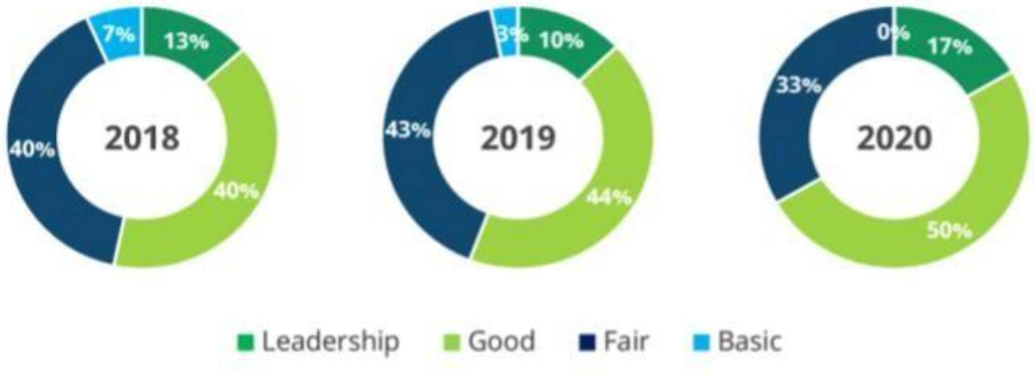
CATEGORY WEIGHTS

Category	Number of questions	Maximum attainable score	Category weight (%)
Rights and Equitable Treatment of shareholders	19	38	30
Role of stakeholders	9	18	10
Disclosure and Transparency	23	46	30
Responsibilities of Board	19	38	30
TOTAL	**70**		**100**

Based on the final score, companies will be grouped into the following buckets:

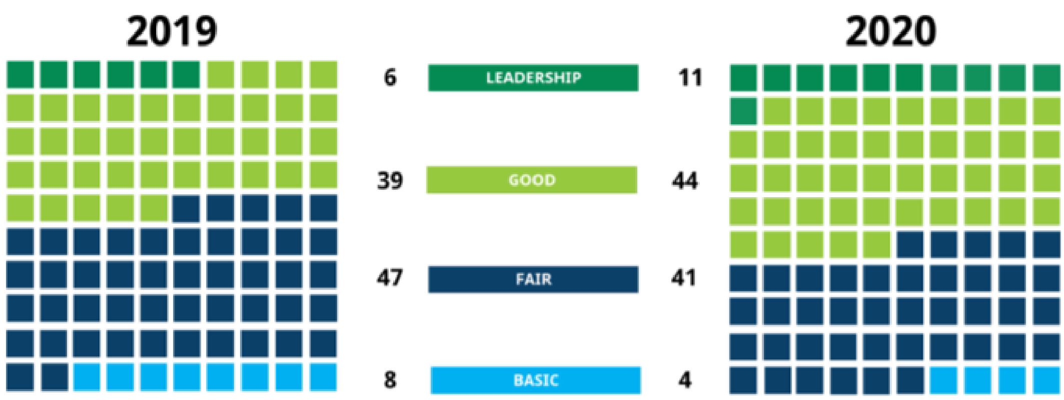


Percentage of SENSEX companies in each category



Companies with leadership scores in BSE100

Distribtion of governance scores for the BSE100 companies



Companies with highest scores in BSE100 to have featured at least twice in thestudies

Companies	2017	2018	2019	2020
Bharti Airtel	GOOD	GOOD		
Cipla			LEADERSHIP	LEADERSHIP
Crompton Greaves GE	GOOD	GOOD		LEADERSHIP
Dr. Reddy’s			GOOD	LEADERSHIP
HDFC		LEADERSHIP	LEADERSHIP	LEADERSHIP
HDFC Bank	LEADERSHIP	GOOD	GOOD	LEADERSHIP
HUL	GOOD	LEADERSHIP	LEADERSHIP	LEADERSHIP
Infosys	LEADERSHIP	LEADERSHIP	LEADERSHIP	LEADERSHIP
Mahindra Finance	GOOD	GOOD		
Marico	GOOD	LEADERSHIP	GOOD	LEADERSHIP
Tata Motors		GOOD	GOOD	LEADERSHIP
Wipro	LEADERSHIP	LEADERSHIP	LEADERSHIP	LEADERSHIP

‘GOOD’ category ‘LEADERSHIP’ category

Annual Median, maximum and minimum scores for BSE100 companies

Source: AS_CG_Scorecard_2020-5-May_2021

Some of leading Indian Companies recent CG Score Card

CCC	B	BB	BBB	A	AA	AAA

LAGGARD
A company lagging its industry based on its high exposure and failure to manage significant ESG risks

AVERAGE
A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers

LEADER
A company leading its industry in managing the most significant ESG risks and opportunities

ABB Ltd
(ABBN)

MSCI ESG RATINGS

AA

CCC	B	BB	BBB	A	**AA**	AAA

Industry: Electrical Equipment
Country/Region: Switzerland

ABB's rating remains unchanged since April, 2018.

ABB is a **leader** among 41 companies in the **electrical equipment industry**.

ESG Rating history

MSCI ESG Rating history data over the last five years or since records began.

ESG Rating distribution

Universe: MSCI ACWI Index constituents electrical equipment, n=41.

We focus on the key issues material to the **electrical equipment industry**. Here is how **ABB** compares to industry peers. MSCI also evaluates companies on their controversial business activities (weapons, tobacco, gambling, global norms and principles etc) and sustainable impact solutions (renewable energy, health, education etc). This information is only factored into the MSCI ESG Ratings from a financial risk perspective. For more details, visit the ESG investing page.

ESG LAGGARD	AVERAGE	ESG LEADER
ABB is not a laggard on any of the Key Issues that we evaluated for its industry.	CORPORATE BEHAVIOR, LABOR MANAGEMENT, OPPORTUNITIES IN CLEAN TECH	CORPORATE GOVERNANCE, TOXIC EMISSIONS & WASTE

HINDUSTAN UNILEVER LIMITED
(HINDUNILVR)

MSCI ESG RATINGS — A

CCC | B | BB | BBB | A | AA | AAA

Industry: Household & Personal Products
Country/Region: India

HUL's rating remains unchanged since July, 2017.

HUL is average among 37 companies in the **household & personal products industry**.

ESG Rating history

MSCI ESG Rating history data over the last five years or since records began.

ESG Rating distribution

Universe: MSCI ACWI Index constituents household & personal products, n=37.

We focus on the key issues material to the **household & personal products industry**. Here is how **HUL** compares to industry peers. MSCI also evaluates companies on their controversial business activities (weapons, tobacco, gambling, global norms and principles etc) and sustainable impact solutions (renewable energy, health, education etc). This information is only factored into the MSCI ESG Ratings from a financial risk perspective. For more details, visit the ESG investing page.

TATA CONSUMER PRODUCTS LIMITED
(TATACONSUM)

MSCI
ESG RATINGS

A

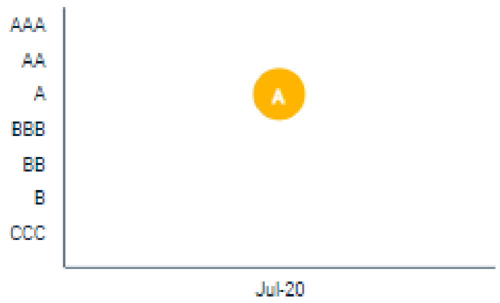
CCC	B	BB	BBB	A	AA	AAA

Industry: Beverages
Country/Region: India

Tata Consumer Products's rating was initiated in July, 2020.

ESG Rating history

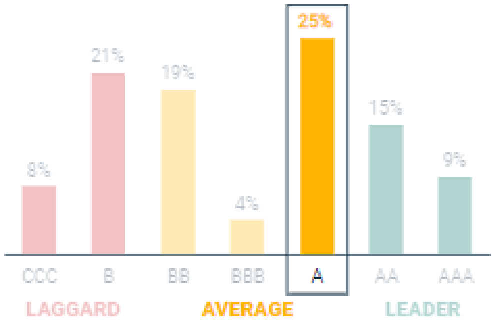
MSCI ESG Rating history data over the last five years or since records began.



Tata Consumer Products is average among 53 companies in the **beverages industry**.

ESG Rating distribution

Universe: MSCI ACWI Index constituents beverages, n=53.



We focus on the key issues material to the **beverages industry**. Here is how **Tata Consumer Products** compares to industry peers. MSCI also evaluates companies on their controversial business activities (weapons, tobacco, gambling, global norms and principles etc) and sustainable impact solutions (renewable energy, health, education etc). This information is only factored into the MSCI ESG Ratings from a financial risk perspective. For more details, visit the ESG investing page.

ESG LAGGARD	AVERAGE	ESG LEADER
SUPPLY CHAIN LABOR STANDARDS	CORPORATE BEHAVIOR	CORPORATE GOVERNANCE
WATER STRESS	OPPORTUNITIES IN NUTRITION & HEALTH	PACKAGING MATERIAL & WASTE
	PRODUCT SAFETY & QUALITY	
	HEALTH & SAFETY	
	PRODUCT CARBON FOOTPRINT	

INFOSYS LIMITED
(INFY)

MSCI
ESG RATINGS

A

CCC	B	BB	BBB	A	AA	AAA

Industry: Software & Services
Country/Region: India

Infosys's rating remains unchanged since October, 2020.

ESG Rating history

MSCI ESG Rating history data over the last five years or since records began.

Infosys is **average** among 151 companies in the **software & services industry**.

ESG Rating distribution

Universe: MSCI ACWI Index constituents software & services, n=151.

We focus on the key issues material to the **software & services industry**. Here is how **Infosys** compares to industry peers. MSCI also evaluates companies on their controversial business activities (weapons, tobacco, gambling, global norms and principles etc) and sustainable impact solutions (renewable energy, health, education etc). This information is only factored into the MSCI ESG Ratings from a financial risk perspective. For more details, visit the ESG investing page.

ESG LAGGARD	AVERAGE	ESG LEADER
CORPORATE BEHAVIOR PRIVACY & DATA SECURITY	HUMAN CAPITAL DEVELOPMENT OPPORTUNITIES IN CLEAN TECH CARBON EMISSIONS	CORPORATE GOVERNANCE

State Bank of India
(SBIN)

MSCI ESG RATINGS

A

CCC	B	BB	BBB	A	AA	AAA

Industry: Banks
Country/Region: India

SBI was upgraded in December, 2020.

SBI is average among 190 companies in the **banks industry**.

ESG Rating history

MSCI ESG Rating history data over the last five years or since records began.

ESG Rating distribution

Universe: MSCI ACWI Index constituents banks, n=190.

We focus on the key issues material to the **banks industry**. Here is how **SBI** compares to industry peers. MSCI also evaluates companies on their controversial business activities (weapons, tobacco, gambling, global norms and principles etc) and sustainable impact solutions (renewable energy, health, education etc). This information is only factored into the MSCI ESG Ratings from a financial risk perspective. For more details, visit the ESG investing page.

ESG LAGGARD	AVERAGE	ESG LEADER
CORPORATE GOVERNANCE CORPORATE BEHAVIOR HUMAN CAPITAL DEVELOPMENT	CONSUMER FINANCIAL PROTECTION FINANCING ENVIRONMENTAL IMPACT	ACCESS TO FINANCE PRIVACY & DATA SECURITY

RELIANCE INDUSTRIES LIMITED
(RELIANCE)

MSCI
ESG RATINGS

BB

CCC | B | BB | BBB | A | AA | AAA

Industry: Oil & Gas Refining, Marketing, Transportation & Storage
Country/Region: India

RIL's rating remains unchanged since March, 2019.

RIL is average among 43 companies in the **oil & gas refining, marketing, transportation & storage industry**.

ESG Rating history

MSCI ESG Rating history data over the last five years or since records began.

ESG Rating distribution

Universe: MSCI ACWI Index constituents oil & gas refining, marketing, transportation & storage, n=43.

We focus on the key issues material to the **oil & gas refining, marketing, transportation & storage industry**. Here is how **RIL** compares to industry peers. MSCI also evaluates companies on their controversial business activities (weapons, tobacco, gambling, global norms and principles etc) and sustainable impact solutions (renewable energy, health, education etc). This information is only factored into the MSCI ESG Ratings from a financial risk perspective. For more details, visit the ESG investing page.

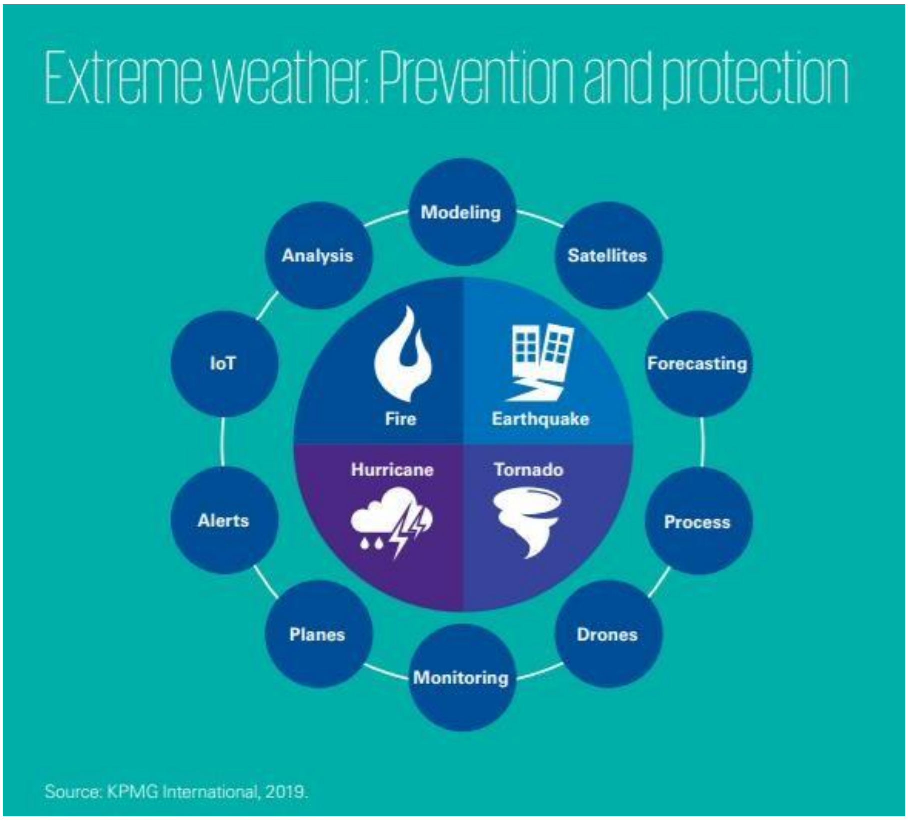
ESG LAGGARD	AVERAGE	ESG LEADER
CORPORATE BEHAVIOR TOXIC EMISSIONS & WASTE HEALTH & SAFETY	CORPORATE GOVERNANCE CARBON EMISSIONS OPPORTUNITIES IN CLEAN TECH	RIL is not a leader on any of the Key Issues that we evaluated for its industry.

7. Climate Related Financial Disclosures

Ever since the formation of the Task Force on Climate-related Financial Disclosures (TCFD) in 2015 and the publication of their first set of recommendations 2 years later, there has been rapid and significant buy-in from organizations across the financial services spectrum.

The TCFD recommendations consist of four pillars — governance, strategy, risk management, and metrics and targets — with suggested disclosures against each one.

Source: https://www.fsb-tcfd.org



https://www.oecd.org/finance/ESG-Investing-Practices-Progress-Challenges.

SASB materiality map

Source: SASB Website – for illustrative purposes only

TFCD materiality framework

Source: Taskforce on Climate-related Financial Disclosures

Through integrated reporting along with the Financial reporting, with ever expanding environmental awareness, these requirements are also increasing and being addressed progressively.

Annexure A.

List of some of the major Corporate Governance failures inIndia that lead to investor wealth destruction.

Unfortunately, history tells us that even the best standards cannot prevent instances of major corporate misconduct. This has been true in the US - Enron, Worldcom, Tyco and, more recently gross miss- selling of collateralised debt obligations; in the UK; in France; in Germany; in Italy; in Japan; in South Korea; and many other OECD nations.

A. Ramalinga Raju-Satyam

The biggest corporate scam in India has come from one of the most respected businessmen. Satyam founder By Ramalinga Raju resigned as its chairman after admitting to cooking up the account books. His efforts to fill the fictitious assets with real ones through Maytas acquisition failed, after which he decided to confess the crime. With a fraud involving about Rs 8,000 crores, Satyam is heading for more trouble in the days ahead. On Wednesday, India fourth largest IT company lost a staggering Rs 10,000 crores in market capitalisation as investors reacted sharply and dumped shares, pushing down the scrip by 78 per cent to Rs 39.95 on the Bombay Stock Exchange. The NYSE-listed firm also faced regulator action in the US.

I am now prepared to subject myself to the laws of the land and face consequences thereof Raju said in a letter to SEBI and the Board of Directors, while giving details of how the profits were inflated over the years and his failed attempts to fill the fictitious assets with real ones Raju said the company balance sheet as of September 30 carries inflated (non-existent) cash and bank balances of Rs 5,040 crores as against Rs 5,361 crores reflected in the books.

B. Harshad Mehta

Harshad Mehta worked with the New India Assurance Company before he moved ahead to try his luck in the stock markets. Mehta soon mastered the tricks of the trade and set out on dangerous game plan. Mehta has siphoned off huge sums of money from several banks and millions of investors were conned in the process. His scam was exposed, the markets crashed and he was arrested and banned for life from trading in the stock markets.

He was known as the Big Bull However, his bull run did not last too long. He triggered a rise in the Bombay Stock Exchange in the year 1992 by trading in shares at a premium across many segments. Taking advantages of the loopholes in the banking system, Harshad and his associates triggered a securities scam diverting funds to the tune of Rs 4000 crores from the banks to stockbrokers between April1991 to May 1992.

He was later charged with 72 criminal offences. A Special Court also sentenced Sudhir Mehta, Harshad Mehta brother, and six others, including four bank officials, to rigorous imprisonment (RI) ranging from 1 year to 10 years on the charge of duping State Bank of India to the tune of Rs 600 crores in connection with the securities scam that rocked the financial markets in 1992. He died in 2002 with many litigations still pending against him.

C. Ketan Parekh

Ketan Parekh followed Harshad Mehta footsteps to swindle croress of rupees from banks. A chartered accountant he used to run a family business, NH Securities. Ketan however had bigger plans in mind. He targeted smaller exchanges like the Allahabad Stock Exchange and the Calcutta Stock Exchange, and bought shares in fictitious names.

His dealings revolved around shares of ten companies like Himachal Futuristic, Global Tele-Systems, SSI Ltd, DSQ Software, Zee Telefilms, Silverline, Pentamedia Graphics and Satyam Computer (K-10 scrips). Ketan borrowed Rs 250 crores from Global Trust Bank to fuel his ambitions. Ketan along with his associates also managed to get Rs 1,000 crores from the Madhavpura Mercantile Co- operative Bank. According to RBI regulations, a broker is allowed a loan of only Rs 15 crores. There was evidence of price rigging in the scrips of Global Trust Bank, Zee Telefilms, HFCL, Lupin Laboratories, Aftek Infosys and Padmini Polymer.

D. Bhansali scam

The Bhansali scam resulted in a loss of over Rs 1,200 crores. He first launched the finance company CRB Capital Markets, followed by CRB Mutual Fund and CRB Share Custodial Services. He ruled like a financial wizard 1992 to 1996 collecting money from the public through fixed deposits, bonds and debentures. The money was transferred to companies that never existed. CRB Capital Markets raised a whopping Rs 176 crores in three years. In 1994 CRB Mutual Funds raised Rs 230 crores and Rs 180 crores came via fixed deposits. Bhansali also succeeded to raise about Rs 900 crores from the markets. However, his good days did not last long, after 1995 he received several jolts. Bhansali tried borrowing more money from the market. This led to a financial crisis. It became difficult for Bhansali to sustain himself. The Reserve Bank of India (RBI) refused banking status to CRB and he was in the dock. SBI was one of the banks to be hit by his huge defaults.

E. The Cobbler's scam - Sohin Daya

Sohin Daya, son of a former Sheriff of Mumbai, was the main accused in the multicrores shoes scam. Daya of Dawood Shoes, Rafique Tejani of Metro Shoes, and Kishore Signapurkar of Milano Shoes were arrested for creating several leather cooperative societies which did not exist. They availed loans of croress of rupees on behalf of these fictitious societies. The scam was exposed in 1995. The accused created a fictitious cooperative society of cobblers to take advantage of government loans through various schemes. Officials of the Maharashtra State Finance Corporation, Citibank, Bank of Oman, Dena Development Credit Bank, Saraswat Cooperative Bank, and Bank of Bahrain and Kuwait were also charge sheeted.

F. Dinesh Dalmia's stock scam.

Dinesh Dalmia was the managing director of DSQ Software Limited when the Central Bureau of Investigation arrested him for his involvement in a stocks scam of Rs 595 crores. Dalmia group included DSQ Holdings Ltd, Hulda Properties and Trades Ltd, and Power flow Holding and Trading Pvt Ltd. Dalmia resorted to illegal ways to make money through the partly paid shares of DSQ Software Ltd, in the name of New Vision Investment Ltd, UK, and unallotted shares in the name of Dinesh Dalmia Technology Trust. Investigation showed that 1.30 crores shares of DSQ Software Ltd had not been listed on any stock exchange.

G. The Fake stamp papers racket.

He paid for his own education at Sarvodaya Vidyalaya by selling fruits and vegetables on trains. He is today famous (or infamous) for being the man behind one of The Telgi case is another big scam that rocked India. The fake stamp racket involving Abdul Karim Telgi was exposed in 2000. The loss is estimated to be Rs 171.33 crores, it was initially pegged to be Rs 30,000 crores, which was later clarified by the CBI as an exaggerated figure. In 1994, Abdul Karim Telgi acquired a stamp paper license from the Indian government and began printing fake stamp papers. Telgi bribed to get into the government security press in Nashik and bought special machines to print fake stamp papers. Telgi networked spread across 13 states involving 176 offices, 1,000 employees and 123 bank accounts in 18cities.

H. The Money Market Fraud

Virendra Rastogi chief executive of RBG Resources was charged with for deceiving banks worldwide of an estimated $1 billion. He was also involved in the duty draw back scam to the tune of Rs 43 crores in India. The CBI said that five companies, whose directors were the four Rastogi brothers -- Subash, Virender, Ravinder and Narinder -- exported bicycle parts during 1995-96 to Russia and Hong Kong by heavily over invoicing the value of goods for claiming excess duty draw back from customs.

I. The UTI Scam

Former UTI chairman P S Subramanyam and two executive directors

-- M M Kapur and S K Basu -- and a stockbroker Rakesh G Mehta, were arrested in connection with the; UTI scam. UTI had purchased 40,000 shares of Cyberspace On September 25, 2000, for about Rs

3.33 crores from Rakesh Mehta when there were no buyers for the scrip. The market price was around Rs 830. The CBI said it was the

conspiracy of these four people which resulted in the loss of Rs 32 crores. Subramanyam, Kapur and Basu had changed their stance on an investment advice of the equities research cell of UTI. The promoter of Cyberspace Infosys, Arvind Johari was arrested in connection with the case. The officials were paid Rs 50 lakh (Rs 5 million) by Cyberspace to promote its shares. He also received Rs
1.18 crores (Rs 11.8 million) from the company through a circuitous route for possible rigging the Cyberspace counter.

J. Sanjay Agarwal's Finance Portal

Home Trade had created waves with celebrity endorsements. But Sanjay Agarwal finance portal was just a veil to cover up his shady deals. He swindled a whopping Rs 600 crores from more than 25 cooperative banks. The government securities (gilt) scam of 2001 was exposed when the Reserve Bank of India checked the acounts of some cooperative banks following unusual activities in the gilt market. Co-operative banks and brokers acted in collusion in abide to make easy money at the cost of the hard earned savings of millions of Indians. In this case, even the Public Provident Fund (PPF) was affected. A sum of about Rs 92 crores was missing from the Seamen Provident Fund. Sanjay Agarwal, Ketan Sheth (a broker), Nandkishore Trivedi and Baluchan Rai (a Hong Kong-based Non- Resident Indian) were behind the Home Trade scam.

K. Gilt funds

Gilt funds, as they are conveniently called, are mutual fund schemes floated by asset management companies with exclusive investments in government securities. The schemes are also referred to as mutual funds dedicated exclusively to investments in government securities. Government securities mean and include central government dated securities, state government securities and treasury bills. The gilt funds provide to the investors the safety of investments made in government securities and better returns than direct investments in these securities through investing in a variety of government securities yielding varying rate of returns gilt funds, however, do run the risk. The first gilt fund in India was set up in December 1998.

L. ILF&S

Infrastructure Leasing & Financial Services (IL&FS) is a non-banking financial company (NBFC), or 'shadow bank'. Established over 30 years ago, the conglomerate funds infrastructure projects across India. IL&FS Financial Services fell short of cash and defaulted on several of its obligations. Even as new infrastructure projects dried up, IL&FS' running construction projects faced cost overruns amid delays in land acquisition and approvals. It defaulted on repayment of bank loans (including interest), term and short-term deposits and also failed to meet commercial paper redemption obligations. It reported that it had received notices for delays and defaults in servicing some of the inter-corporate deposits accepted by it. Following the defaults, rating agency ICRA downgraded the ratings of its short-term and long-term borrowing programmes. The defaults also jeopardised hundreds of investors, banks and mutual funds associated with IL&FS, and sparked panic among equity investors, even as several non-banking financial companies faced turmoil amid a default scare.

The IL&FS group operates over a hundred subsidiaries and is sitting on a debt of Rs 94,000 crores. Serious Fraud Investigation Office (SFIO) started a probe as there were huge procedural lapses at the NBFC. The initial SFIO probe also revealed that there were major lapses in Deloitte's audit of the IL&FS. SFIO investigation found it guilty of painting a rosy picture of IFIN despite being aware of the poor financial health of the company, triggering the ministry to seek a ban on the auditors.

M. Amrapali

Once ranked among the country’s biggest real estate giants, the Amrapali Group is today struggling to pay its dues. At its peak in 2015, the group, which has been hauled to Supreme Court by more than 2,500 homebuyers, claimed to have nearly 50 properties spread across 24 cities. The Amrapali group had expanded into the FMCG sector with its ‘Amrapali Mums’ product line introduced in Bihar, as well as the entertainment sector with its Amrapali Media Vision.

There seem to be diversion of funds and the bankers started legal action for recovery of dues, Amrapali's funds are running dry because of its tussles with financial institutions and settlement of various bank obligations.

N. Dewan Housing Finance Company (DHFL)

A lumpsum of Rs 14,046 crores, out of which Rs 11,755.79 crores was routed to several fictitious firms known as Bandra Book Firms, was loaned to borrowers. A forensic audit report, unearthed by Grant Thornton disclosed the irregularities of DHFL, after which the CBI registered a case on March 2021. In November 2019, DHFL became the first NBFC to be referred for bankruptcy by the RBI. It defaulted on its debt payments, including bank loan repayments and commercial paper (CP) redemption obligations. Creditors, mostly scheduled commercial banks (SCBs), rushed to tighten lending norms against NBFCs. This sparked a brutal liquidity crisis that affected all shadow lenders, big and small.

DHFL is a non-banking financial company. This means that all banks are supposed to lend a certain portion of their funds to companies like DHFL. This is the reason that money deposited by small depositors in bank accounts of State Bank of India, Bank of Baroda, etc. ends up in the hands of NBFC's like DHFL. As per recent data, the Indian banking sector had invested at least $3 billion in DHFL. Along with this amount, DHFL has also borrowed heavily by issuing bonds and other debt instruments. These instruments are also largely held by the retail investor. Hence, if the allegations against DHFL are true, it could signify massive losses for the retail investor.

The alleged Methodology by which DHFL was able to siphon off money lent to it by public sector banks are:

Loans to Shell Companies: It was alleged that DHFL has made dubious loans to shell companies which are pass-through entities they are just a stop on the complex route which is generally created to confuse tax and other regulatory authorities. These corporations have indirect links to the promoters of the DHFL group, and reports indicate that DHFL has lent out close to $1.5 billion in unsecured loans to these companies. It is alleged that a lot of these loans given to shell companies have now become non-performing assets (NPA's)

Round Tripping: The bigger problem is that the money which was loaned out has later flown back into entities which were owned by the DHFL group. In financial parlance, this is known as round- tripping. Hence, in effect, DHFL gave an unsecured loan to its promoters. Without round-tripping DHFL is just guilty of negligence. With round-tripping, DHFL has a malafide intent and therefore becomes guilty of fraud.

Purchasing Overseas Assets: Lastly, the money acquired by round tripping was used by DHFL in order to purchase assets in other countries. It is alleged that DHFL has invested the money in start up companies in the United Kingdom and has purchased a cricket team in the Sri Lankan Premier League. It is also alleged that other personal assets have also been created in countries like Mauritius and Dubai by the owners of DHFL. Once again, this seems like a scam because all the assets have been created in other jurisdictions. Hence the Indian government or the tax authority will not be able toacquire the same.
The bottom line is that the allegations made against DHFL are explosive. A scam of this magnitude will cause a lot of damage to Indian investors.

USEFUL LINKS for further reading and references

India Governance Links Regulators

- Securities Exchange Board of India (SEBI)
- Ministry of Corporate Affairs (MCA)

Laws, Regulations and Reports

- Report of the Committee on Corporate Governance for publiccomments
- Integrated Reporting by Listed Entities
- Securities and Exchange Board of India guidelines on BoardEvaluations
- Securities and Exchange Board of India (Listing Obligations AndDisclosure Requirements) (Amendment) Regulations, 2017
- Report of The Companies Law Committee
- Principles of Corporate Governance (G20 2015, OECD)
- Baijal Committee report
- The Companies Act of 1956
- The Companies Act of 2013
- The Desirable Corporate Governance - a code
- The Naresh Chandra Committee Report
- The Kumar Mangalam Birla Committee Report
- The N R Narayana Murthy Committee Report
- Clause 49 of the Listing Agreement
- Revised Clause 49 of the Listing Agreement

Statutory Bodies

- Institute of Company Secretaries of India (ICSI)
- ICAI
- IICA

Others

- National Foundation for Corporate Governance (NFCG)
- Corporate Governance section from the Business Portal of India
- The Competition Commission of India
- The Central Vigilance Commission of India
- Confederation of Indian Industries (CII)
- Institute of Internal Auditors (IIA) India
- Bombay Chartered Accountants Society (BCAS)
- Asian Corporate Governance Association (ACGA)
- Information Systems Audit and Control Association (ISACA)

Southern India Regional Council
(Set up by an Act of Parliament)
The Institute of Chartered Accountants of India