

**GUIDANCE NOTE
ON
CORPORATE GOVERNANCE
CERTIFICATE**



**THE INSTITUTE OF
Company Secretaries of India**
IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament

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PREFACE TO SECOND REVISED EDITION

Code of good corporate governance practices for all listed companies is prescribed under clause 49 of the listing agreement which has been revised by the Securities and Exchange Board of India (SEBI) from time to time. Practising Company Secretaries (PCS) are authorised to issue a certificate regarding compliance of the conditions of Corporate Governance under this clause.

The Secretarial Standards Board (SSB) of the Institute responsible for formulating Secretarial Standards had brought out a Guidance Note on Corporate Governance Certificate in the year 2005, which was revised by the SSB in 2007 keeping in view the amendments made. Since then, many developments have taken place in this arena and a number of circulars have been issued by SEBI making further amendments to clause 49. The 'Model Equity Listing Agreement' has been specified by SEBI in May 2010 in order to facilitate listing of specified securities in the SME exchange; clause 52 of this agreement outlines the conditions of Corporate Governance similar to Clause 49.

Importantly, Corporate Governance Voluntary Guidelines, 2009 has been issued by the Ministry of Corporate Affairs, Government of India in December 2009 for voluntary adoption by the corporate sector. As a result, the scope of the Corporate Governance Certificate would now comprise certification of compliance of the conditions of Corporate Governance as stipulated in the Listing Agreement as well as the Voluntary Guidelines.

Keeping all these developments in view, the Guidance Note has been again revised by the SSB. This Guidance Note aims to provide a reliable and accessible single source reference material for professionals in general, and Company Secretaries in particular.

I place on record my sincere thanks to Shri S. V. Subramanian, Chairman and other members of the Secretarial Standards Board for their valuable contribution and painstaking efforts put in by them in the revision and finalization of the Guidance Note.

I place on record my sincere thanks to Mr. N K Jain, Secretary and CEO, the ICSI for his sagacious guidance in bringing out this Guidance Note.

I also record my appreciation for the efforts put in by Mrs. Alka Kapoor, Joint Director, Mrs. Sonia Baijal, Deputy Director and Mrs. Banu Dandona, Assistant Director, at ICSI, the Secretariat at the Centre for Corporate Governance, Research and Training of the Institute at Navi Mumbai under the able guidance of Mr. Gopalchalam, Dean, ICSI-CCGRT in preparing the draft of the revised Guidance Note.

I urge the corporates and the members of the profession to follow the desirable practices as enunciated in this Guidance Note as well as in the other Guidance Notes and Secretarial Standards issued by the Council of the Institute so as to promulgate good Corporate Governance.

Place : New Delhi
Date : August 16, 2010

Vinayak S Khanwalkar
President, ICSI

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GUIDANCE NOTE ON CORPORATE GOVERNANCE CERTIFICATE

(Clause 49 of the Listing Agreement)

PART I

Corporate governance involves a set of relationships between a company's management, its Board, its shareholders and other stakeholders. Strong corporate governance ("Corporate Governance") is indispensable to resilient and vibrant capital markets and investor protection rests on this foundation.

INTRODUCTION

Practising Company Secretaries (PCS) have been given a role to contribute towards improvement of standards of good Corporate Governance among listed companies, under Clause 49 of the Listing Agreement, which has become operational with effect from 1.1.2006. The said clause provides that the company shall obtain a certificate from either the auditors or practising company secretary(ies) regarding compliance of the conditions of Corporate Governance.

Clause 49 VII (i) mandates that, the Corporate Governance Compliance Certificate ("CGCC") shall be annexed to the Directors' Report, which is sent annually to all the shareholders of the company. The CGCC is also required to be sent to the Stock Exchange(s) along with the annual report filed by the company.

Clause 49 VI (i) provides that, there shall be a separate section on Corporate Governance in the Annual Reports of listed entities, with a detailed compliance report on Corporate Governance.

Non-compliance of any mandatory requirement of Clause 49 of the Listing Agreement with reasons thereof and the extent to which the non-mandatory requirements have been adopted, should be specifically highlighted in the CGCC.

BACKGROUND

The issues relating to Corporate Governance have attracted considerable attention, debate and research worldwide in recent decades. The contexts have however been different and there have been various dimensions to understanding the contours of Corporate Governance.

Across the globe, regulators have adopted different approaches to promote Corporate Governance. These are primarily three: A prescriptive approach,

that requires companies to adopt specific Corporate Governance practices; a non-prescriptive approach, that allows companies to determine their own Corporate Governance practices, subject to certain disclosures; a balanced approach, that specifies Corporate Governance best practices, but allows the companies to depart from these practices subject to certain disclosures. India has so far preferred prescriptive – “one size fits all” - approach in view of the developing nature of its economy.

India has come a long way in the context of Corporate Governance. The first code on Corporate Governance in India was the voluntary code titled “Desirable Corporate Governance in India – A Code,” formulated by the Rahul Bajaj Committee, which was appointed by the Confederation of Indian Industry (CII). Following this, SEBI appointed another Committee chaired by Kumar Mangalam Birla, to submit a report on Corporate Governance procedures and processes. The report of this Committee gave impetus to the formalization of principles of Corporate Governance in India. Based on the recommendations of this Committee, SEBI, vide its circular dated February 21, 2000, specified principles of Corporate Governance and introduced a new Clause 49 in the Listing Agreement of the Stock Exchanges.

Since then, many committees have been constituted to study different aspects of Corporate Governance in India, including the Naresh Chandra Committee on Audit and Corporate Governance, appointed by the then Department of Company Affairs and the Narayana Murthy Committee appointed by SEBI in February 2003.

Subsequent to the issue of the said circular, based on the suggestions and representations received, SEBI by its circular dated October 29, 2004, directed all stock exchanges to replace the then existing Clause 49 by the revised clause appended to the circular. The revised Clause 49 (“Clause 49”) was to be applicable to all listed companies effective April 1, 2005. (***Text of the circular is given at Appendix XI.***)

However, as a large number of companies were still not in a state of preparedness to be fully compliant with the requirements as contained in the circular, the date for ensuring compliance with the revised Clause 49 of the listing agreement was extended up to December 31, 2005. (***Text of the circular is given at Appendix XII.***)

Thereafter, SEBI issued a number of circulars inter alia detailing provisions of Corporate Governance relating to independent directors, etc. (***Text of the circulars is given at Appendix XIII.***)

The revised Clause 49 of Listing Agreement as amended till April 29, 2010 is given at ***Appendix XIV.***

‘Corporate Governance Voluntary Guidelines, 2009’ (“Voluntary Guidelines”), have been issued by the Ministry of Corporate Affairs, Government of India in December 2009, for voluntary adoption by the corporate sector. These guidelines do not substitute any extant law or regulations, but are essentially for voluntary adoption by the corporate sector. (Text of the Guidelines is given at ***Appendix XV.***)

To facilitate listing of specified securities in the SME exchange, SEBI has by its Circular dated May 17, 2010 specified 'Model Equity Listing Agreement' to be executed between the Issuer and Stock Exchange. (Text of the Circular is given at **Appendix XVI**.) Clause 52 of the listing agreement outlines the conditions of Corporate Governance that have to be complied; which are similar to Clause 49.

OBJECTIVE

This Guidance Note seeks to meet the needs of companies complying with the provisions of Clause 49 and the PCS certifying the compliance of various requirements of Clause 49.

Where a Company has adopted the Voluntary Guidelines, additional inputs for checking compliance have been provided in appropriate places.

It has been provided in the Voluntary Guidelines, that companies should inform their shareholders about those guidelines which they did not or have not been able to comply with, either fully or partially.

APPLICABILITY OF CLAUSE 49

Clause 49 is applicable to:

- (a) entities seeking listing for the first time, at the time of seeking in-principle approval for such listing;
- (b) existing listed entities having a paid up share capital of Rs. 3 crores and above or net worth of Rs. 25 crores or more at any time in the history of the entity;

including bodies corporate (other than mutual funds), e.g., private and public sector banks, financial institutions, insurance companies etc. incorporated under other statutes, as long as Clause 49 does not violate their respective statute and the guidelines or directives issued by the relevant regulatory authorities.

Right to access records

In order that the PCS can carry out the necessary verification for the purpose of issuing CGCC, the Company should provide the PCS access to the registers, books of accounts, papers, documents, reports and records of the Company wherever kept. The PCS is entitled to obtain from the officers or agents of the Company, such information and explanations as he may consider necessary for the purpose of such certification.

To carry out the verification, the PCS should check the registers and records maintained, the attendance book and Minutes Book of the Board Meetings, General Meetings, Audit Committee Meetings, Shareholders/Investors Grievances Committee Meetings, etc. He should also check the quarterly reports submitted by the Company to the Stock Exchange from the first day of the financial year. Where the PCS considers it necessary to verify the records of earlier years, for the purpose of certification, he may do so.

Period of CGCC

The CGCC from the PCS should relate to the financial year of the listed Company under Report.

Communication to earlier incumbent

In view of the provisions of clause (8) of Part I of the First Schedule to the Company Secretaries Act, 1980, when a PCS is assigned the compliance certification work of the Company for the first time, he should communicate his appointment to the earlier incumbent, if a PCS, by registered post. Even if the earlier incumbent is not a PCS, it is desirable and a good practice to communicate the appointment to him.

Presence of PCS at the Annual General Meeting

The PCS who has issued the CGCC should make himself available at the Annual General Meeting to provide clarifications, on CGCC, if required.

Professional Responsibility and scope of certification

The certification of the compliance of Corporate Governance casts a vital responsibility on the PCS. It is, therefore, imperative for the PCS to exercise a high degree of care and diligence while issuing the CGCC and also adhere to the highest standards of professional ethics and excellence in providing his services. [Refer *Law Society v. KPMG Peat Marwick* [October 29, 1999] (Chancery Division (Companies Court), U.K.)].

Any failure or lapse on the part of a PCS in issuing a CGCC, may not only attract disciplinary action for professional or other misconduct under the provisions of the Company Secretaries Act, 1980, but also make him liable for any injury caused to any person due to his negligence in issuing the CGCC.

The scope of CGCC would comprise certification of compliance of the conditions of Corporate Governance as stipulated in the Listing Agreement and Voluntary Guidelines issued by the Ministry of Corporate Affairs. The responsibility of PCS in certifying compliance of the conditions of Corporate Governance would relate to verification and certification of factual implementation of conditions stipulated therein. The certificate is neither an assurance as to future viability of the Company, nor of the efficacy or effectiveness with which the management has conducted the affairs of the Company.

For certifying the compliance of the conditions of Corporate Governance under Clause 49 of the Listing Agreement, PCS can rely on the duly approved report of the Board of Directors on Corporate Governance, as regards the disclosures of various items in the Annual Report are concerned.

Mode of issuing CGCC

For issuing CGCC a three-step procedure needs to be followed:

- (i) The PCS would first obtain from the listed entity its draft report on Corporate Governance.

- (ii) PCS would examine relevant records relating to Corporate Governance and obtain necessary information and explanation from the management. An illustrative list of compliance inputs and checklists has been indicated in each paragraph in this Guidance Note. The list is however, not exhaustive.
- (iii) PCS on the basis of the report and verification of such other records as well as information and explanation so obtained, would certify the compliance of the conditions of Corporate Governance and give his certification to the Board to be annexed to the Board's Report.
- (iv) Where a Company has adopted the Voluntary Guidelines, the PCS would also certify the compliance thereof.

Types of certification

The certification may be unqualified or qualified:

- (a) *Unqualified certificate*: An unqualified certificate should be issued when the PCS forms the opinion that the conditions of Corporate Governance have been duly complied with by the Company in accordance with Clause 49.
- (b) *Qualified certificate*: A qualified certificate should be issued when the PCS concludes that there are certain specific non-compliances or inadequacies. A qualified certificate should contain a brief description of non-compliances or inadequacies in compliances and the extent thereof.

It is recommended that the qualifications, if any, should be stated in **bold type** or in *italics* in the CGCC.

If the PCS is unable to form any opinion with regard to any specific matter, the PCS shall state clearly the fact that he is unable to form an opinion with regard to that matter and the reasons therefor.

If the scope of work required to be performed is restricted on account of limitations imposed by the client, or on account of other limitations (such as certain books or papers being in custody of another person or Government Authority), the certificate may indicate such limitations.

If such limitations are so material that the PCS is unable to express any opinion, the PCS should state that "in the absence of necessary information and records, he is unable to certify compliance or otherwise of the conditions of Corporate Governance by the Company".

Penalty for false CGCC

In certifying the compliance of conditions of Corporate Governance, the PCS should comply with the code of conduct issued by the Institute of Company Secretaries of India. Failure to comply with the code of conduct would render the PCS liable to charge of professional misconduct and the consequences thereof.

Section 628 of the Act provides that if, in any return, report, certificate, balance sheet, prospectus, statement or other document required by or for the purposes of any of the provisions of the Act, any person makes a statement which is false in any material particular, knowing it to be false or which omits any material fact, knowing it to be material, he shall be punishable with imprisonment for a term which may extend to two years, and shall also be liable to fine.

Section 629 of the Act further provides penalty of imprisonment for a term which may extend to seven years, and fine, if any person intentionally gives false evidence upon any examination on oath or solemn affirmation, authorised under the Act or in any affidavit, deposition or solemn affirmation, in or about the winding up of any company under the Act, or otherwise in or about any matter arising under the Act.

Section 23H of the Securities Contracts (Regulation) Act, 1956 ("SCRA"), provides that, whoever fails to comply with any provision of SCRA, the rules or articles or bye-laws or the regulations of a recognized stock exchange or directions issued by the Securities and Exchange Board of India for which no separate penalty has been provided, shall be liable to a penalty which may extend to one crore rupees.

Further Section 23M of the SCRA provides that, without prejudice to any award of penalty by the adjudicating officer under SCRA, if any person contravenes or attempts to contravene or abets the contravention of, the provisions of SCRA or of any rules or regulations or bye-laws made there under, for which no punishment is provided elsewhere in SCRA, he shall be punishable with imprisonment for a term which may extend to ten years, or with fine, which may extend to twenty-five crore rupees or with both. If any person fails to pay the penalty imposed by the adjudicating officer or fails to comply with any of his directions or orders, he shall be punishable with imprisonment for a term, which shall not be less than one month, but which may extend to ten years, or with fine, which may extend to twenty-five crore rupees, or with both.

DEFINITIONS

The following terms are used in this Guidance Note with the meanings specified herein:

"Act" means the Companies Act, 1956 (1 of 1956), or any statutory modification or re-enactment thereof.

"Associate" means an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

"Board" or *"Board of Directors"* means the Board of Directors of a Company.

"CEO" means a person designated as Chief Executive Officer or the Managing Director or Manager appointed in terms of the Act.

"CFO" means the Chief Financial Officer or a whole-time Finance Director or any other person by whatever name called heading and discharging the finance function.

"Control" is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.

"Clause" means Clause 49 of the Listing Agreement.

"Executive" means an employee discharging managerial functions of the listed Company.

"Executive director" means a whole-time director; a director of a Company who is also an employee of that Company, who often has either the responsibility of overall day-to-day management or a specified role in the management of the Company, such as finance director, marketing director, production director, etc.

"Financial Statements" include cash flow statement, balance sheet, profit and loss account and the schedules appended thereto.

"Free Reserves" mean reserves of the Company which are available for distribution of dividend.

"Institution" means a public financial institution as defined in Section 4A of the Act, 1956 or a "corresponding new bank" as defined in Section 2(d) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, [both Acts]."

"ICDR Regulations" means Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.

"Networth" means the aggregate value of the paid-up share capital and all reserves created out of the profits and share premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation provision and amalgamation.

"Non-executive director" means a director who is not an executive director.

"Pecuniary transaction" means a transaction relating to or connected with money.

"Promoter" means a person who has—

- (a) been named as such in a prospectus; or in any filing with the Stock Exchange whichever is later; or
- (b) control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise:

Provided that nothing in sub-clause (b) shall apply to a person who is acting in a professional capacity;

"Promoter Group" shall include:

- (a) the promoter;
- (b) an immediate relative of the promoter (i.e., any spouse of that person, or any parent, brother, sister or child of the person or of the spouse); and
- (c) in case promoter is a company:
 - (i) a subsidiary or holding company of that company;
 - (ii) any company in which the promoter holds 10% or more of the equity capital or which holds 10% or more of the equity capital of the promoter;
 - (iii) any company in which a group of individuals or companies or combinations thereof who holds 20% or more of the equity capital in that company also holds 20% or more of the equity capital of the issuer company; and
- (d) in case the promoter is an individual:
 - (i) any company in which 10% or more of the share capital is held by the promoter or an immediate relative of the promoter or a firm or HUF in which the promoter or any one or more of his immediate relative is a member;
 - (ii) any company in which a company specified in (i) above, holds 10% or more, of the share capital;
 - (iii) any HUF or firm in which the aggregate share of the promoter and his immediate relatives is equal to or more than 10% of the total; and
- (e) all persons whose shareholding is aggregated for the purpose of disclosing in the prospectus under the heading "shareholding of the promoter group."

Explanation:

The Financial Institution, Scheduled Banks, Foreign Institutional Investors (FIIs) and Mutual Funds shall not be deemed to be a promoter or promoter group, merely by virtue of the fact that, 10% or more of the equity of the issuer company is held by such institution.

Provided that, the Financial Institutions, Scheduled Banks and Foreign Institutional Investors (FIIs) shall be treated as promoters or promoter group for the subsidiaries or companies promoted by them or for the mutual fund sponsored by them.

"Related party" includes a party who, at any time during the reporting period has the ability to control or exercise significant influence over the other party in making financial and/or operating decisions.

“Related party transaction” means a transfer of resources or obligations between related parties, regardless of whether or not a price is charged.

“Relative” means *“relative”* as defined in Section 2(41) and Section 6 read with Schedule IA of the Act.

“Section” means section of the Act.

“Senior management” shall mean personnel of the Company who are members of its core management team excluding Board of Directors.

Normally, this would comprise all members of management one level below the Board including all functional heads.

“Subsidiary” means a company:

- (a) in which another (the holding Company) holds, either by itself and/or through one or more subsidiaries, more than one-half in nominal value of its equity share capital; or
- (b) in which another (the holding Company) controls, either by itself and/or through one or more subsidiaries, the composition of its Board of directors.

“Voluntary Guidelines” means the Corporate Governance Voluntary Guidelines, 2009, issued by the Ministry of Corporate Affairs, Government of India.

“Year” means financial year.

Words and expressions used herein and not defined shall have the meaning respectively assigned to them under the Act.

PART II**I. BOARD OF DIRECTORS****(A) Composition of Board**

- (i) The Board of directors of the Company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the Board of Directors comprising of non-executive directors.**
- (ii) Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director, at least half of the Board should comprise of independent directors.**

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

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

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

- 1.1 An optimum combination of the Board has been prescribed in respect of executive, non-executive and independent directors. The number of non-executive directors must not be less than 50% of the Board’s strength. The number of Independent directors should be at least one-third of strength of the Board if Chairman is a non-executive director or one half if the Chairman is an executive director or the non-executive Chairman is a promoter of the company or is related to any promoter or person occupying management positions at the Board level or at one level below Board.

Checklist

- Verify the number of non-executive directors on the Board.
- Verify that the number of non-executive directors is not less than 50% of the total number of directors on the Board.
- Where the Chairman of the Board is a non-executive director, verify that not less than one-third of the Board comprises of independent directors.
- Where the non-executive chairman is a promoter of the company or is related to any promoter or person occupying management positions

at the Board level or at one level below the Board, at least one-half of the Board of the company shall consist of independent directors.

- Where the Chairman of the Board is an executive director, verify that not less than half of the Board comprises of independent directors.

Compliance inputs

- Minutes of the Board and General Meetings.
- Relevant portion of the minutes of the meetings of the nomination committee, if any.
- E-Form 32 filed with ROC.
- Annual Return.
- Register of Directors u/s 303 of the Act.
- Certificate of Independence from the Independent Directors.

(iii) For the purpose of the sub-clause (ii), the expression 'independent director' shall mean a non-executive director of the Company who:

- (a) apart from receiving director's remuneration, does not have any material pecuniary relationships or transactions with the Company, its promoters, its directors, its senior management or its holding Company, its subsidiaries and associates which may affect independence of the director;**
- (b) is not related to promoters or persons occupying management positions at the board level or at one level below the board;**
- (c) has not been an executive of the Company in the immediately preceding three financial years;**
- (d) is not a partner or an executive or was not partner or an executive during the preceding three years, of any of the following:**
 - (i) the statutory audit firm or the internal audit firm that is associated with the Company, and**
 - (ii) the legal firm(s) and consulting firm(s) that have a material association with the Company.**
- (e) is not a material supplier, service provider or customer or a lessor or lessee of the Company, which may affect independence of the director;**
- (f) is not a substantial shareholder of the Company i.e. owning two percent or more of the block of voting shares.**

(g) is not less than 21 years of age

Explanation : For the purposes of the sub-clause (iii):

- (a) "Associate" shall mean a Company which is an "associate" as defined in Accounting Standard (AS) 23, "Accounting for Investments in Associates in Consolidated Financial Statements", issued by the Institute of Chartered Accountants of India.**
- (b) "Senior management" shall mean personnel of the Company who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of management one level below the executive directors, including all functional heads.**
- (c) "Relative" shall mean "relative" as defined in Section 2(41) and section 6 read with Schedule IA of the Act, 1956.**
- (iv) Nominee directors appointed by an institution which has invested in or lent to the Company shall be deemed to be independent directors.**

Explanation : "Institution" for this purpose means a public financial institution as defined in Section 4A of Act, 1956 or a "corresponding new bank" as defined in Section 2(d) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 [both Acts]."

- 1.2 The clause above specifies certain conditions in which a non executive director ceases to be an independent director.
- 1.3 A person is not an independent director if he has any material pecuniary relationships or transactions, other than directors' remuneration (includes sitting fees, commission and/or stock options), which may affect his independence. A relationship or transaction that does not involve money or cannot be measured in terms of money would not affect independence of a director.

A pecuniary relationship or transaction that affects independence of a director has been termed herein as material, which is *vis-à-vis* the director. The material relationship or transaction may be with the Company; its promoters; its directors; its senior management; its holding Company, its subsidiaries and associates. Whether the relationship or transaction is material or not should be determined by considering the facts and with reference to the director concerned. Further it is the duty of independent director/s not to enter into any transactions or relationships

without the prior approval of the Board. The Board and/or the concerned director can take a view on the materiality of the transaction.

However, prior approval from the Board for entering into a material pecuniary relationship with any of the parties stated in the clause does not assure his status as an independent director. The Company may obtain from every independent director a declaration to this effect as a matter of good practice. The declaration placed before the Board shall be reviewed and its decision recorded in the minutes. (*Suggested format of the declaration is given at Appendix I.*)

- 1.4 A person is not an independent director if, he is related to promoters or persons occupying management positions at the board level or at one level below the Board. In other words, relative of non-executive non-promoter director is eligible to be appointed as an independent director, if he or she satisfies other conditions laid down in the sub-clauses. The expression "management positions at Board level" refers to an executive-director of the listed Company. The term "management position one level below the Board" refers to the executives who report to the Board and/or to the members of the Board and includes functional heads. The organization chart of the listed company as approved by the CEO should help in determining executives / functional heads referred here.
- 1.5 A person is not an independent director if he has been an executive of the Company in the immediately preceding three financial years.
- 1.6 A person is not an independent director if he is a partner or an executive or was a partner or an executive during preceding three years, of the statutory audit firm or internal audit firm associated with the Company, whether such relationship is material or not.

A person is not an independent director if he is a partner or an executive or was partner or executive at any time during the previous three years of legal firm(s) and consulting firm(s) that have a material association with the Company.
- 1.7 A person is not an independent director if he is a supplier of goods or services, customer, lessor or lessee of the company, which may affect the independence of the director. The clause intends to cover the above specified transactions in the year of certification, not past transactions. Customer herein does not mean a consumer of the product of the company. Customer would mean a stockist, a distributor of the company. Further, the transaction should be capable of affecting the independence of a director. It is recommended that the opinion of the Board, regarding materiality or otherwise in this respect should be recorded in the Board minutes to facilitate compliance and certification.
- 1.8 A person is not an independent director if he holds 2% or more of the voting share capital of the Company or voting power of the Company as per the list of share holdings/beneficial owners. Whether the shares are "voting or not" is a question of fact and should be verified by the certifying

PCS. It may be noted that a person is not debarred from being covered as an independent director if his relative is a substantial shareholder of the company holding 2% or more of the voting shares.

- 1.9 A person is not an independent director if he is less than 21 years of age.
- 1.10 Nominee directors appointed by specified institutions, who have invested in or lent money to the Company, are deemed as independent directors.
- 1.11 In case a vacancy arises in the position of independent director pursuant to such transactions/relationships, the Board should file such intimation with the Stock Exchange. If the vacancy is filled up at the meeting of the Board held immediately after the vacancy arose, it should be construed as compliance with the conditions of Corporate Governance.

Checklist

- Examine letters/declarations, where such practice is followed, of each independent director which they are expected to give to the Board regarding transactions entered into by them which are not "material" and which in their opinion do not affect their independence.
- Verify contracts with companies and firms in which directors are interested.
- Verify if the person appointed as an independent director is or is not a supplier of goods or services, or customer of the Company, regardless of the value of the goods sold, purchased or services provided, and regardless of compliance with the provisions of Sections 297, 299 and 300 of the Act, with a view to determine independence of directors. In this respect rely on view of the Board as expressed in the minutes.
- Verify that the concerned director does not hold two per cent or more of the block of voting shares.
- Verify if an alternate director has been appointed for a non-executive/independent director, the alternate director also fulfills the same criteria as of the original director in order for him to be treated as an independent director.
- Verify if the disqualification criteria applies at the time of appointment of an independent director and throughout the relevant period.

Compliance inputs

- Strength of the Board as per the Articles of Association/Board resolution.
- Resolution of the Board of Directors / Company appointing, designating, varying the terms of appointment of each director and notices and explanatory statements pertaining to such matters.
- Resume of each Director.

- Disclosure of interest made by each Director.
- Register of Directors.
- Register of Directors Shareholding.
- Register of Firms/parties in which Directors are interested.
- Management Representations.
- Declaration given by the Directors.

Voluntary Guidelines

- (i) The Board should put in place a policy for specifying positive attributes of Independent Directors such as integrity, experience and expertise, foresight, managerial qualities and ability to read and understand financial statements. Disclosure about such policy should be made by the Board in its report to the shareholders. Such a policy may be subject to approval by shareholders.
- (ii) All Independent Directors should provide a detailed Certificate of Independence at the time of their appointment, and thereafter annually. This certificate should be placed by the company on its website, if any, and in case the company is a listed company, also on the website of the stock exchange where the securities of the company are listed.

Tenure for Independent Director

- (i) An individual may not remain as an Independent Director in a company for more than six years.
- (ii) A period of three years should elapse before such an individual is inducted in the same company in any capacity.
- (iii) No individual may be allowed to have more than three tenures as Independent Director in the manner suggested in 'i' and 'ii' above.

To prevent unfettered decision making power with a single individual, there should be a clear demarcation of the roles and responsibilities of the Chairman of the Board and that of the Managing Director/Chief Executive Officer (CEO). The roles and offices of Chairman and CEO should be separated, as far as possible, to promote balance of power.

Independent Directors to have the Option and Freedom to meet Company Management periodically

- (i) In order to enable Independent Directors to perform their functions effectively, they should have the option and freedom to interact with the company management periodically.
- (ii) Independent Directors should be provided with adequate independent office space and other resources and support by the companies including the power to have access to additional information to enable

them to study and analyze various information and data provided by the company management.

Checklist

1. Check the minutes of the Board meeting to ascertain whether a Board approved policy specifying the criteria/attributes of Independent directors is in place.
2. Check appointment letter issued to the independent director.
3. Check copy of the policy specifying the criteria/attributes for independent director.
4. Check the copy of the certificate given by the Independent director.
5. Check the Register of Directors.
6. Check the Register of contracts, companies and firms in which directors are interested.

(B) Non executive directors' compensation and disclosures

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

Provided that the requirement of obtaining prior approval of shareholders in general meeting shall not apply to payment of sitting fees to non-executive directors, if made within the limits prescribed under the Act, 1956 for payment of sitting fees without approval of the Central Government.

- 1.12 Under the above clause, payment of compensation including stock options to non-executive directors, as fixed by the Board of Directors, requires prior approval of shareholders in general meeting. However, payment of sitting fees to non-executive directors within the limits prescribed under the Act, and if permitted by the Articles of Association, shall not require prior approval of shareholders.

This clause refers to fees/compensation paid to a director for rendering services as a director and not for services rendered in any other capacity or holding an office or place of profit in the company.

In case of stock options, the shareholders' resolution must specify the limits for the maximum number of stock options during a financial year that can be granted to the non-executive directors, including independent director/s.

Checklist

Verify from the minutes of the Board Meetings and General Meetings.

- if compensation paid to non-executive directors is fixed by the Board and has been previously approved by shareholders in general meeting.
- sitting fees paid to non-executive directors is within the limits prescribed under the Act, 1956. If not, whether the approval of shareholders and Central Government, if required, has been obtained.
- if resolution passed by the shareholders in general meeting mentions the limits for the maximum number of stock options that can be granted to non-executive directors, including independent directors, in any financial year and in aggregate.

Compliance inputs

- Resolution of the Board of Directors /General Meetings with regard to compensation payable to Non-Executive Directors and notices and explanatory statements pertaining to such matters.
- Stock options scheme, as applicable to Non-Executive Directors including Independent Directors.
- Relevant portion of the minutes of the meetings of the remuneration committee, if any.

Voluntary Guidelines**C. Remuneration of Directors****C.1 Remuneration****C.1.1 Guiding Principles-Linking Corporate and Individual Performance**

- (i) The companies should ensure that the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the company successfully. It should also be ensured that relationship of remuneration to performance is clear. Incentive schemes should be designed around appropriate performance benchmarks and provide rewards for materially improved company performance. Benchmarks for performance laid down by the company should be disclosed to the members annually.
- (ii) Remuneration Policy for the members of the Board and Key Executives should be clearly laid down and disclosed. Remuneration packages should involve a balance between fixed and incentive pay, reflecting short and long term performance objectives appropriate to the company's circumstances and goal.
- (iii) The performance-related elements of remuneration should form a significant proportion of the total remuneration package of Executive

Directors and should be designed to align their interests with those of shareholders and to give these Directors keen incentives to perform at the highest levels.

C.1.2 Remuneration of Non-Executive Directors (NEDs)

- (i) The companies should have the option of giving a fixed contractual remuneration, not linked to profits, to NEDs. The companies should have the option to:
 - (a) Pay a fixed contractual remuneration to its NEDs, subject to an appropriate ceiling depending on the size of the company; or
 - (b) Pay up to an appropriate percent of the net profits of the company.
- (ii) The choice should be uniform for all NEDs, i.e. some should not be paid a commission on profits while others are paid a fixed amount.
- (iii) If the option chosen is 'i(a)' above, then the NEDs should not be eligible for any commission on profits.
- (iv) If stock options are granted as a form of payment to NEDs, then these should be held by the concerned director until three years of his exit from the Board.

C.1.3 Structure of compensation to NEDs

- (i) The companies may use the following manner in structuring remuneration to NEDs:
 - *Fixed component* : This should be relatively low, so as to align NEDs to a greater share of variable pay. These should not be more than one-third of the total remuneration package.
 - *Variable component* : Based on attendance of Board and Committee meetings (at least 75% of all meetings should be an eligibility pre-condition)
 - *Additional variable payment(s)* for being:
 - the Chairman of the Board, especially if he/she is a non-executive chairman;
 - the Chairman of the Audit Committee and/or other committees;
 - members of Board Committees.
- (ii) If such a structure (or any similar structure) of remuneration is adopted by the Board, it should be disclosed to the shareholders in the Annual Report of the company.

C.1.4 Remuneration of Independent Directors (IDs)

- (i) In order to attract, retain and motivate Independent Directors of quality to contribute to the company, they should be paid adequate

sitting fees which may depend upon the twin criteria of Net Worth and Turnover of companies.

- (ii) The IDs may not be allowed to be paid stock options or profit based commissions, so that their independence is not compromised.

Checklist

1. Check the Board Minutes to ascertain whether there is a Board approved remuneration policy for directors.
2. Check that the remuneration policy is within the limits prescribed under the Companies Act .
3. Check whether the policy:
 - a. Links remuneration of executive directors to individual performance and company performance.
 - b. In the case of NEDs, check whether the policy specifies that a uniform basis, i.e. either fixed contractual amount or profit related commission, is applicable to all NEDs.
4. Check whether stock options are payable to NEDs. If yes, check whether a lock-in/ lien is marked on the said shares.

(C) Other provisions as to Board and Committees

- (i) **The Board shall meet at least four times a year, with a maximum time gap of four months between any two meetings. The minimum information to be made available to the board is given in Annexure-IA.**
- (ii) **A director shall 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. Furthermore, it 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.**

Explanation :

1. **For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies and companies under Section 25 of the Act shall be excluded.**
2. **For the purpose of reckoning the limit under this sub-clause, Chairmanship/membership of the Audit Committee and the Shareholders' Grievance Committee alone shall be considered.**

- (iii) **The Board shall periodically review compliance reports of all laws applicable to the Company, prepared by the Company as well as steps taken by the Company to rectify instances of non-compliances.**
- (iv) **An independent director who resigns or is removed from the Board of the Company shall be replaced by a new independent director within a period of not more than 180 days from the day of such resignation or removal, as the case may be:**

Provided that where the company fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director within the period of 180 days shall not apply

- 1.13 Every listed Company must hold at least four meetings of its Board of Directors in a year and there should not be an interval longer than four months between two consecutive board meetings.

Month is not defined in the clause. Under Section 3(35) of the General Clauses Act, 1897 "month" means a month reckoned according to British Calendar. For example, if the meeting is held on 15th June of a year, next meeting should be held not later than 15th October of that year.

Where a meeting was convened within four months since the last meeting, but could not be conducted due to reasons beyond control, (such as flood, earthquake, etc) and is subsequently adjourned to a later date, beyond the stipulated gap of four months, such meeting shall be considered as held within the four months and construed as compliance with the condition of Corporate Governance.

- 1.14 The above clause requires, information as specified in *Annexure 1A* thereof, which must be made available to the Board of Directors, at a meeting. Alternatively, it may be circulated to each member of the Board. It is recommended that the Company Secretary should collect this information and place before the Board or circulate to the members of Board, as the circumstances may warrant. Where he is unable to do so, he should indicate his inability and this should be reflected in the minutes of the Board.
- 1.15 No director whether executive or non executive, of a listed Company must be a member of more than 10 committees of directors and must not be Chairman of more than five committees of directors. "Ten Committees of directors" referred to in the above clause includes committees of all listed or unlisted public limited companies but excludes committees of private limited companies, foreign companies and Section 25 companies.

As per the Explanation, "Committees" herein refer to only two types of committees, i.e. Audit Committee and Shareholders' Grievance Committee.

Every director is expected to monitor the number of Committees he is member of and/or his Chairmanship and keep the Company informed in this regard including any changes therein. It should be borne in mind that there is no requirement in this regard in the Act. Directors should be persuaded to furnish this information which can be obtained as at the last date of the financial year and also periodically update them. (Specimen format for disclosing information about directors is given at **Appendix II.**)

- 1.16 Listed companies must prepare compliance report ("Compliance Report") of all applicable laws. The report must refer to compliance as well as non-compliance of applicable laws. The Board must review such report periodically. The Board must also note the steps taken by the Company to rectify instances of non-compliance if any.

It is for the Board to specify how comprehensive the report should be and who should be made responsible for the said purpose and the Board will decide the periodicity of the report. The term "all laws" refers to the laws as are applicable to the listed Company.

It is recommended that Company Secretary of the listed entity may be entrusted with the responsibility of compiling the Compliance Report. For this purpose he may obtain necessary certificates from the respective functional heads.

- 1.17 The vacancy of an independent director shall be filled in within 180 days from the date on which it falls vacant. The aforesaid timeline will however, not apply if the company fulfills the requirement of minimum independent directors on its Board even without filling the vacancy.

Checklist

- Verify whether any director has resigned.
- Verify number of Board Meetings held in the year.
- Verify time gap between two consecutive meetings.
- Verify Reports/Information as per Annexure 1A of the clause, was made available to the Board of Directors:
- Verify the membership/chairmanship in other companies held by the directors of the listed Company.
- Verify whether every director informs the Company about the Committee positions he occupies in other companies and intimates the Company of the changes, if any.
- Verify if the Company has taken steps to place before the Board the compliance reports prepared by the Company and steps taken by the Company to suitably deal with any contravention, default or offence.

- Verify whether the appointment of Director in the vacancy created by separation was within 180 days from the date of separation.

Compliance inputs

- Management representation in this behalf.
- Minutes of meetings of Board.
- Minutes of the meetings of committees of the Board.
- Agenda of the Board/Committee meetings and correspondence with directors.
- Disclosures made by directors from time to time
- Statutory Compliance report placed before the Board .

Voluntary Guidelines

C.2 Remuneration Committee

- (i) Companies should have Remuneration Committee of the Board. This Committee should comprise of at least three members, majority of whom should be non executive directors with at least one being an Independent Director.
- (ii) This Committee should have responsibility for determining the remuneration for all executive directors and the Executive Chairman, including any compensation payments, such as retirement benefits or stock options. It should be ensured that no director is involved in deciding his or her own remuneration.
- (iii) This Committee should also determine principles, criteria and the basis of remuneration policy of the company which should be disclosed to shareholders and their comments, if any, considered suitably. Whenever, there is any deviation from such policy, the justification/ reasons should also be indicated/disclosed adequately.
- (iv) This Committee should also recommend and monitor the level and structure of pay for senior management, i.e. one level below the Board.
- (v) This Committee should make available its terms of reference, its role, the authority delegated to it by the Board, and what it has done for the year under review to the shareholders in the Annual Report.

C.3 Nomination Committee

- (i) The companies may have a Nomination Committee comprising of majority of Independent Directors, including its Chairman. This Committee should consider:
 - proposals for searching, evaluating, and recommending appropriate Independent Directors and Non-Executive Directors [NEDs], based

on an objective and transparent set of guidelines which should be disclosed and should, *inter-alia*, include the criteria for determining qualifications, positive attributes, independence of a director and availability of time with him or her to devote to the job;

- determining processes for evaluating the skill, knowledge, experience and effectiveness of individual directors as well as the Board as a whole.
- (ii) With a view to enable Board to take proper and reasoned decisions, Nomination Committee should ensure that the Board comprises of a balanced combination of Executive Directors and Non-Executive Directors.
 - (iii) The Nomination Committee should also evaluate and recommend the appointment of Executive Directors.
 - (iv) A separate section in the Annual Report should outline the guidelines being followed by the Nomination Committee and the role and work done by it during the year under consideration.

Checklist

1. Minutes of Board Meeting where the remuneration committee was constituted, the composition decided and the terms of reference framed and also changes if any.
2. Minutes of Meeting of Remuneration Committee.
3. Annual Report of the Company to ascertain whether there is disclosure about the remuneration committee.

(D) Code of Conduct

- (i) **The Board shall lay down a code of conduct for all Board members and senior management of the Company. The code of conduct shall be posted on the website of the Company.**
- (ii) **All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the Company shall contain a declaration to this effect signed by the CEO.**

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

- 1.18 The Board of Directors of every listed Company must adopt a code of conduct for all Board members and members of senior management. The code must also be posted on the website of the Company.

Code of Conduct or what is popularly known as Code of Business Conduct sets out the standards of behavior that must guide actions of the Board and members of senior management of the Company, which should help them solve ethical dilemmas they face.

The Code may include the following:

- (a) Company values.
- (b) Avoidance of conflict of interest.
- (c) Accurate and timely disclosure in reports and documents that the Company files before statutory authorities, as well as in Company's other communications.
- (d) Compliance of applicable laws, rules, and regulations including Insider Trading Regulations.
- (e) Maintaining confidentiality of Company affairs.
- (f) Non-competition with Company and maintaining fair dealings with the Company.
- (g) Standards of business conduct for Company's customers, suppliers, shareholders, competitors, employees.
- (h) Prohibition of Directors and members of senior management from taking corporate opportunities for themselves or their families.
- (i) Review of the adequacy of the Code annually by the Board.

The Code of Conduct for each Company summarises its philosophy of doing business and is an important ingredient in the corporate governance of an entity. No authority for waiver of the Code for anyone should be given.

All Board members and members of senior management must demonstrate their commitment to the code by affirming compliance with Code annually, in the last quarter of the financial year. Adherence to the Code of Conduct should be periodically evaluated and the Annual Report of the Company shall contain a declaration signed by the CEO regarding compliance in this behalf.

However, an illustrative code is given in **Appendix III**. Companies are, however, encouraged to design and adopt their own code of conduct.

Checklist

- Verify a code of conduct exists for all Board members and members of senior management of the Company and that such code has been adopted by the Board.
- Check if the code of conduct is placed on the website of the Company.
- Verify from the declaration of the CEO that all Board members and members of senior management have affirmed compliance with the Code on an annual basis.

- Check that the annual report of the Company contains a declaration to the above effect by the CEO.

Compliance inputs

- The Code of Conduct of the Company.
- The Minutes of the Meeting in which the Board approved the Code.
- The website of the Company.
- Annual affirmation letters of compliance by all the board members and members of senior management.
- Declaration of the CEO.
- Annual Report of the Company.

II AUDIT COMMITTEE

II(A) Qualified and Independent Audit Committee

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

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

Explanation 1 : The term “financially literate” means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation 2 : A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

- (iii) **The Chairman of the Audit Committee shall be an independent director.**
- (iv) **The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries.**
- (v) **The audit committee may invite such of the executives, as it considers appropriate (and particularly the head of the**

finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the Company. The finance director, head of internal audit and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee.

(vi) The Company Secretary shall act as the secretary to the committee.

2.1 The Board must constitute an independent Audit Committee as prescribed. The Audit Committee must have minimum three members. Two-third of the members must be independent directors. The chairman of the Committee must be an independent director. The Company Secretary must act as the secretary to the Committee. All members of the Audit Committee are required to be "financially literate," i.e., the members should be able to read and understand basic financial statements, viz. balance sheet, profit and loss account, and statement of cash flows. At least one member should have accounting or related financial management expertise. Such member may or may not be an independent director. A member is deemed to possess this expertise, if he has experience in finance or accounting, or the requisite professional certification in accounting, or any other comparable experience or background.

In case a vacancy arises in the position of a committee member and if the vacancy is filled up at the meeting of the Committee held immediately after the vacancy arose, it should be construed as compliance with conditions of Corporate Governance.

It must be noted that transacting any business by the Committee without proper constitution will be non-compliance with the conditions of Corporate Governance and should be reported to the Stock Exchange in the quarterly report.

2.2 The Chairman of Audit Committee must be present in the Annual General Meeting of the Company to answer the shareholders' queries. Keeping in view the spirit of the abovementioned clause it is recommended, that, if the Chairman is unable to attend the AGM due to circumstances beyond his control, he should request another member of the Audit Committee to be present at the Annual General Meeting and to provide the requisite clarifications which should be recorded in the minutes of the AGM.

2.3 The Audit Committee may invite executives, as appropriate, to attend its meetings. The executives may include head of finance, head of internal audit etc. The Committee may sometimes meet without the presence of any executive of the Company.

2.4 Section 292A of the Act provides for the constitution of an Audit Committee in accordance with the terms of reference specified by the Board in writing.

Checklist

- Verify if the Company has set up an Audit Committee and the committee so constituted has at least three directors as members, with the Company Secretary appointed as Secretary to the Committee.
- Ascertain that 2/3rd of the members of the Committee are independent directors.
- Verify that members of the Audit Committee are financially literate and at least one member has accounting or related financial management expertise.
- Ascertain that Chairman of the Committee is an independent director.
- Ascertain that Chairman of the Audit Committee or any other member of the Committee authorized in this behalf attended the Annual General Meeting to answer shareholder's queries. If the Chairman was not present at the AGM, the PCS should ensure that this is appropriately disclosed in the Compliance Certificate. This disclosure will be with reference to the last AGM held before the issuance of the Compliance Certificate.
- Ascertain whether there is a practice of inviting executives (an particularly, the head of the finance function) in the Audit Committee meetings. Further, ascertain from the Minutes Book of the Audit Committee whether such executives did attend the Audit Committee meetings.

Compliance inputs

- Minutes of Board and Audit Committee meetings.
- Qualification and experience of Members of the Audit Committee.

II(B) Meeting of Audit Committee

The audit committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.

- 2.5 At least four meetings of the Audit Committee must be held in a year in such a way that not more than four months elapse between two meetings.

Reference to the term "month" is discussed in para 1.13.

Where a meeting was convened within four months since the last meeting but could not be conducted due to reasons beyond control, (such as flood, earthquake, etc) and is subsequently adjourned to a later date, beyond the stipulated gap of four months, such meeting shall be

considered as held within the four months and construed as compliance with the condition of Corporate Governance.

- 2.6 One-third of the members of the Audit Committee or two members, whichever is higher, shall form the quorum for the meeting of the Audit Committee. At least two, out of the members present at the meeting of Audit Committee, must be independent directors.

Checklist

- Verify if four meetings of Audit Committee have been held in the year.
- Verify that not more than four months have elapsed between two meetings of the Audit Committee.
- Verify requirements of quorum have been fulfilled.
- Ascertain that at least two out of the members present at the meeting of the Audit Committee, were independent directors.

Compliance Inputs

- Notices of Meetings of Audit Committee.
- Agenda of the Audit Committee meetings.
- Attendance Register, if any.
- Minutes of Meetings of Audit Committee.

II(C) Powers of Audit Committee

The audit committee shall have powers, which should include the following:

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

- 2.7 Apart from the above provisions, the Board may give such other powers, as it may deem fit and proper.

Checklist

- Verify whether clear terms of reference defining the powers of the Audit Committee have been suitably framed. The powers of the Audit Committee should include the four mandatory powers mentioned in 49II(C). In addition to the mandatory powers, the PCS should also check whether the powers of the Audit Committee are adequate as the mandatory powers are only illustrative in nature.

Compliance Inputs

- Terms of reference of the Audit Committee.
- Agenda of the Audit Committee meetings.
- Minutes of the Board and Audit Committee meetings.

Audit Committee – Enabling powers

- (i) The Audit Committee should have the power to -
 - have independent back office support and other resources from the company;
 - have access to information contained in the records of the company; and
 - obtain professional advice from external sources.
- (ii) The Audit Committee should also have the discretion of separate discussions with internal and external auditors as well as the management.

II(D) Role of Audit Committee

The role of the audit committee shall include the following:

- 1. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.**
- 2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.**
- 3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.**
- 4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:**
 - (a) Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of Section 217 of the Act, 1956.**
 - (b) Changes, if any, in accounting policies and practices and reasons for the same.**
 - (c) Major accounting entries involving estimates based on the exercise of judgment by management.**
 - (d) Significant adjustments made in the financial statements arising out of audit findings.**

- (e) **Compliance with listing and other legal requirements relating to financial statements.**
 - (f) **Disclosure of any related party transactions.**
 - (g) **Qualifications in the draft audit report.**
- 5. **Reviewing, with the management, the quarterly financial statements before submission to the board for approval.**
- 5A. **Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.**
- 6. **Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.**
- 7. **Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.**
- 8. **Discussion with internal auditors on any significant findings and follow up there on.**
- 9. **Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.**
- 10. **Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.**
- 11. **To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.**
- 12. **To review the functioning of the Whistle Blower mechanism, in case the same is existing.**
- 12A. **Approval of appointment of CFO (i.e., the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience and background, etc. of the candidate.**
- 13. **Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.**

Explanation (i) : The term “related party transactions” shall have the same meaning as contained in the Accounting Standard 18, Related Party Transactions, issued by The Institute of Chartered Accountants of India.

Explanation (ii) : If the Company has set up an audit committee pursuant to provision of the Act, the said audit committee shall have such additional functions / features as is contained in this clause.

II(E) Review of Information by Audit Committee

The Audit Committee shall mandatorily review the following information:

- 1. Management discussion and analysis of financial condition and results of operations;**
- 2. Statement of significant related party transactions (as defined by the audit committee), submitted by management;**
- 3. Management letters / letters of internal control weaknesses issued by the statutory auditors;**
- 4. Internal audit reports relating to internal control weaknesses; and**
- 5. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee**

2.8 Audit Committee is an important organ in Corporate Governance. The role of a properly constituted audit committee is strengthened if all the participants have a clear understanding of the audit committee's objectives. This includes oversight of financial reporting process and disclosures to ensure correctness, sufficiency and credibility of its financial information; appointment/re-appointment of statutory auditors; reviewing with the Board (referred to as Management of the Company in the clause) significant matters such as:

- (a) Directors' Responsibility Statements in the Board's Report u/s 217 of the Act.
- (b) Compliance of legal requirements in relation to financial statements.
- (c) Disclosure of related party transactions.
- (d) Reviewing of quarterly financial statements, performance of statutory auditors, adequacy of material control system.
- (e) Reasons for substantial defaults in payments to depositors/debenture holders/creditors/shareholders (non payment of dividends).
- (f) Functioning of whistle blower mechanism, if existing.

(g) Reviewing the internal audit function and controls with emphasis on matters of irregularities, suspected fraud, or breach.

2.9 One of the roles requires "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." ["Company's financial information" and assurance by the Committee should be with regard to such information and with regard to the "financial statements"].

2.10 The Audit Committee should also review consolidated financial statements.

2.11 The above clause also provides that the Audit Committee may review the functioning of the Whistle Blower mechanism, in case the same is in place. The whistleblower policy is an internal mechanism for employees to report to the management, concerns about unethical behaviour, actual or suspected fraud or violation of the Company's code of conduct or ethics policy. (An Illustrative Whistle Blower Policy is given at **Appendix IV**)

Companies are, however, encouraged to design and adopt their own policy.

2.12 Every Audit Committee constituted under Section 292A(1) of the Act shall act in accordance with the terms of reference to be specified in writing by the Board. The terms of reference of the audit committee should be included in a formal charter which should be approved by the Board and periodically reviewed and updated. (An illustrative Charter for Audit Committee is given at **Appendix V**).

2.13 The Audit Committee has been assigned the task of mandatory review of information as laid down in sub-clause II(E).

2.14 The Audit Committee is expected to review with management the annual financial statements before submission to the Board for approval with particular reference *inter alia* to disclosure of any (read all) related party transactions defined under Accounting Standards-18(AS-18). Here the review is limited to examining whether such transactions have been detailed in the report.

The Audit Committee is also required to define as to which transactions constituted significant transactions, to request the management to prepare a statement of such transactions and review the same.

2.15 In terms of the ICDR Regulations, a monitoring agency is required to be appointed by an issuer in case of issue exceeding Rs. 500 crores; the monitoring report is to be filed with the issuer company, on a half yearly basis.

The monitoring report together with the management's comments is required to be placed by the issuer company before its audit committee.

2.16 The audit committee should review the statement of all transactions with related parties including their basis, placed before them by the

management. If any transaction is not on arm's length basis, management shall provide an explanation to the audit committee justifying the same. In addition to ensuring proper disclosure of all transactions that attract the provisions of AS-18, the audit committee should also review related party transactions whether in the ordinary course of business or not and the management justification for the transactions which are not at arm's length basis, if any.

Checklist

- Verify whether the role of the Audit Committee encompasses the areas specified in clause II (C), (D) and (E).
- Ascertain if the role assigned to it within the terms of reference has been carried out.
- Ascertain if there are established channels of communication to report suspected breaches of laws or regulations or other improprieties? If not, make recommendations therefor.
- Ascertain that the minutes of the Audit Committee were placed in the subsequent Board Meeting for its consideration.
- Verify if the Audit Committee has reviewed all the information as stipulated in the clause.
- Verify with regard to related party transactions, whether Committee laid down parameters for determining a particular transaction as significant and reviewed the necessity of such transactions.
- Examine the details of information such as internal audit reports, management letters, appointment/removal of internal auditors placed for perusal of the Committee.

Compliance Inputs

- Terms of reference of Audit Committee.
- Notice of Meetings of the Audit Committee.
- Agenda and Minutes of the Meetings of Audit Committee and of the Board.
- Action Taken Report submitted by the Company Secretary to the Committee.
- Accounting Standard 18.
- Statement of Related Party Transactions.
- Offer document, monitoring agency report etc.
- Whistle Blower Policy.
- Disclosure under Section 299 of the Act.

Voluntary Guidelines**C. Audit Committee - Role and Responsibilities**

- (i) The Audit Committee should have the responsibility to -
 - monitor the integrity of the financial statements of the company;
 - review the company's internal financial controls, internal audit function and f systems;
 - make recommendations in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
 - review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process.
- (ii) The Audit Committee should also monitor and approve all Related Party Transactions including any modification/amendment in any such transaction.
- (iii) A statement in a prescribed/structured format giving details about all related party transactions taken place in a particular year should be included in the Board's report for that year for disclosure to various stake holders.

VI. Institution of Mechanism for Whistle Blowing

- (i) The companies should ensure the institution of a mechanism for employees to report concerns about unethical behaviour, actual or suspected fraud, or violation of the company's code of conduct or ethics policy.
- (ii) The companies should also provide for adequate safeguards against victimization of employees who avail of the mechanism, and also allow direct access to the Chairperson of the Audit Committee in exceptional cases.

Voluntary Guidelines**IVA Appointment of Auditors**

- (i) The Audit Committee of the Board should be the first point of reference regarding the appointment of auditors.
- (ii) The Audit Committee should have regard to the profile of the audit firm, qualifications and experience of audit partners, strengths and weaknesses, if any, of the audit firm and other related aspects.
- (iii) To discharge its duty, the Audit Committee should:
 - discuss the annual work programme and the depth and detailing of the audit plan to be undertaken by the auditor, with the auditor;

- examine and review the documentation and the certificate for proof of independence of the audit firm, and
- recommend to the Board, with reasons, either the appointment/re-appointment or removal of the statutory auditor, along with the annual audit remuneration.

B. Certificate of Independence

- (i) Every company should obtain a certificate from the auditor certifying his/its independence and arm's length relationship with the client company.
- (ii) The Certificate of Independence should certify that the auditor together with its consulting and specialized services affiliates, subsidiaries and associated companies or network or group entities has not/have not undertaken any prohibited non-audit assignments for the company and are independent vis-à-vis the client company.

C. Rotation of Audit Partners and Firms

- (i) In order to maintain independence of auditors with a view to look at an issue (financial or non-financial) from a different perspective and to carry out the audit exercise with a fresh outlook, the company may adopt a policy of rotation of auditors which may be as under:-
 - Audit partner - to be rotated once every three years
 - Audit firm - to be rotated once every five years.
- (ii) A cooling off period of three years should elapse before a partner can resume the same audit assignment. This period should be five years for the firm.

D. Need for clarity on information to be sought by auditor and/or provided by the company to him/it

- (i) With a view to ensure proper and accountable audit, there should be clarity between company management and auditors on the nature and amount of information/documents/ records etc and periodicity/frequency for supply/obtaining such information/documents/ records etc.
- (ii) In any case the auditor concerned should be under an obligation to certify whether he had obtained all the information he sought from the company or not. In the latter case, he should specifically indicate the effect of such non receipt of information on the financial statements.

Checklist

1. From the Minutes of Board Meeting :
 - a. Verify whether the company has constituted Audit Committee comprising at least three members with Independent Directors constituting the majority.

- b. Verify whether the Chairman of such Committee is an Independent Director.
 - c. Verify that members of the Audit Committee have knowledge of financial management, audit or accounts.
 - d. Verify whether clear terms of reference defining the powers of the Audit Committee have been suitably framed.
 - e. Verify whether the role of the Audit Committee encompasses the areas specified.
2. Check the minutes of Audit Committee Meetings with regard to the discharge of the functions by the Audit Committee.

III. SUBSIDIARY COMPANIES

- (i) **At least one Independent Director on the Board of Directors of the holding Company shall be a director on the Board of Directors of a material non listed Indian subsidiary Company.**
- (ii) **The Audit Committee of the listed holding Company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary Company.**
- (iii) **The minutes of the Board meetings of the unlisted subsidiary Company shall be placed at the Board meeting of the listed holding Company. The management should periodically bring to the attention of the Board of Directors of the listed holding Company, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary Company.**

Explanation 1: The term “material non-listed Indian subsidiary” shall mean an unlisted subsidiary, incorporated in India, whose turnover or net worth (i.e. paid up capital and free reserves) exceeds 20% of the consolidated turnover or net worth respectively, of the listed holding Company and its subsidiaries in the immediately preceding accounting year.

Explanation 2: The term “significant transaction or arrangement” shall mean any individual transaction or arrangement that exceeds or is likely to exceed 10% of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the material unlisted subsidiary for the immediately preceding accounting year.

Explanation 3 : Where a listed holding Company has a listed subsidiary which is itself a holding Company, the above provisions shall apply to the listed subsidiary insofar as its subsidiaries are concerned.

- 3.1 The listed Company must appoint at least one of its independent directors on the Board of a material-non-listed Indian subsidiary Company. Material non-listed Indian subsidiary means one whose turnover or net worth exceeds 20% of consolidated turnover or net worth of the listed holding Company and its subsidiaries in immediately preceding accounting year. Indian Subsidiary herein means a Company incorporated in India, whether its business is in India or abroad. It thus does not include a Company incorporated outside India, whether it does business in India or abroad. For example, if ABC is a holding Company with a consolidated turnover of Rs. 1000 crores, which includes turnover of all its subsidiaries, and if one of its subsidiaries ZYX Ltd. is an Indian subsidiary and its turnover is Rs. 200 crores or more, then ZYX Ltd. will be a material-non-listed subsidiary.
- 3.2 The Audit Committee of the listed Company must also review financial statements, in particular, investments made by the unlisted subsidiary Company.
- 3.3 The minutes of the Board meetings of the unlisted subsidiary must be placed before the Board of listed holding Company. The management must periodically bring to the attention of the Board of the listed holding Company, a statement of all "significant transactions and arrangements" entered into by unlisted subsidiary Company. "Significant transactions and arrangements" means individual transaction or arrangement that exceeds or likely to exceed 10% of total revenues or total expenses or total assets or total liabilities, as the case may be, of the material unlisted subsidiary for immediately preceding accounting year. The unlisted subsidiary, referred in the sub-clause III (ii) and (iii), does not specify if all unlisted subsidiaries are included or the said sub clause applies only to material non-listed Indian subsidiary. The use of the word "the" before "unlisted subsidiary Company" in the aforesaid clauses supports the interpretation that it applies to "material non-listed Indian subsidiary Company".
- 3.4 Where a listed holding Company has a listed subsidiary, which also is a holding Company, the provisions of these sub-clauses would apply to the listed subsidiary insofar as its subsidiaries are concerned.

Checklist (reference to "unlisted subsidiary" herein below means "material non-listed Indian subsidiary")

- Ascertain if one independent director of the holding Company is on the Board of the material non-listed Indian subsidiary Company.
- Verify that the Management has brought to the attention of the Board of Directors of the listed holding Company a statement of all significant transactions and arrangements entered into by the unlisted subsidiary Company.
- Verify if the Committee has reviewed the financial statements of its subsidiary Company particularly the investments made by the unlisted subsidiary Company.

- Verify the minutes of the Board Meetings of the unlisted subsidiary Company were placed at the Board of the holding Company.
- Verify if the Report of the Board of Directors of the holding Company includes a statement to the effect that the directors have reviewed the statement of all significant transactions and arrangements entered into by the unlisted subsidiary Company.

Compliance Inputs

- Minutes of the Board Meetings and Audit Committee of the listed Company.
- Minutes of the Board Meetings of the “material” non-listed Indian subsidiary Company.
- Financial statements of non-listed Indian subsidiaries.

IV. DISCLOSURES

(A) Basis of related party transactions

- (i) A statement in summary form of transactions with related parties in the ordinary course of business shall be placed periodically before the audit committee.**
- (ii) Details of material individual transactions with related parties which are not in the normal course of business shall be placed before the audit committee.**
- (iii) Details of material individual transactions with related parties or others, which are not on an arm’s length basis should be placed before the audit committee, together with Management’s justification for the same.**

4.1 In respect of related party transactions, the following shall be periodically placed before the Audit Committee:

- (i) a statement of the transactions, in summary form, in the ordinary course of business, irrespective of the materiality of the transaction;
- (ii) details of all material transactions not in normal course of business. Further, all material transactions not on arm’s length with related parties or others shall be placed before the Audit Committee, together with management’s justification for such transactions.

(Specimen format of disclosure of materially significant related party transactions entered into by the Company or its subsidiaries is given at **Appendix VI.**)

4.2 As the above sub-clause does not specify frequency of placing the transactions before the Audit Committee, it would be sufficient compliance if transactions are placed at periodic intervals decided by the Committee. The Committee would thus be free to decide the periodicity. It is however inferred from sub-clause IID(4) that, the Committee would

annually review the transactions while submitting annual financial statements for approval of the Board.

4.3 Whether a transaction is a material transaction or not, should be ascertained from the particulars disclosed in the registers and records of the Company and from the information furnished to the Board / Audit Committee. In case there is no disclosure, namely:

- (i) there are no related party transactions that could be ascertained from the records; or
- (ii) there are transactions with related parties, but none of them is stated to be material in nature;

the PCS may obtain the views of the CFO on the materiality of the transaction in the form of a representation for the purposes of certification.

(Suggested format for disclosure of directors' interest in transactions is given at **Appendix VII.**)

Checklist

- Verify if a statement of all transactions with related parties and details of material i.e. significant or substantial transactions with related parties which are not in the normal course of business, were placed before the Audit Committee.
- Ascertain related parties, Companies and Firms in which directors are interested.
- Verify from the records that in case of material individual transactions with related parties or others which are not on an arm's length basis, the management has provided a justification to the audit committee.

Compliance Inputs

- Agenda and minutes of the meetings of Audit Committee.
- Minutes of Board meetings.
- Disclosures made in the Annual Report as per AS-18.
- Register of Contracts.
- Application for Approval of Central Government under the Act and orders granting approval.

IV(B) Disclosure of Accounting Treatment

Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is more representative

of the true and fair view of the underlying business transaction in the Corporate Governance Report.

- 4.4 As per the provisions of Section 211(3B) of the Act, where in the preparation of Profit and Loss Account and Balance Sheet, any deviation has been made from the accounting standards, such deviation has to be disclosed in the profit and Loss Account and Balance Sheet. In addition, this sub-clause requires the deviations to be also reported in Corporate Governance Report, with an explanation why Board believes alternative treatment is more representative of the true and fair view of underlying business transaction.

Checklist

- Verify from the Board of Directors' Report that the Company has made required disclosures if in preparation of financial statement, treatment different from that prescribed in an Accounting Standard has been followed.
- Verify if the disclosure includes an explanation as to why, in the opinion of the Board, such alternative treatment is more representative of the true and fair view of the underlying business transaction.

Compliance inputs

- Financial statements.
- Directors' Responsibility Statement.
- Report of the Auditors.
- Accounting Policies.
- Corporate Governance Report.

IV(C) Board Disclosures – Risk management

The Company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

- 4.5 Under this sub-clause, every Company must have a system to inform the Board about the risk assessment and minimization procedures. Such a system should be periodically reviewed to ensure that the management is taking measures to assess, control and minimize the risks. This will generally be undertaken by the internal audit function, but an alternative mechanism may be employed, to achieve the same outcome depending on the company's size and complexity and the type of risks encountered.

Risk Management, which is a key business process, is about identifying potential variations from what is planned or desired and managing those

to maximize opportunity, minimize loss so as to improve decision making and outcomes. Risks and concerns are specific and peculiar to each industry/company. Sound and effective implementation of risk management is part of best practice at a corporate and strategic level as well as a means of improving operational activities. The Company shall determine risks and concerns that are typical to that type of industry/company and draw proper mechanisms and procedures to minimize them.

Risk management contributes to good Corporate Governance by providing reasonable assurance to the Board and members of senior management that the organizational objectives would be achieved within a tolerable degree of risk.

The various types of risk associated with conducting business among others may be: industry risk, competition risk, operating risk, credit risk, market risk, environmental risk, geographical risk, political risk etc. If risk is such that it can be described sufficiently and accurately to enable a calculation to be made as to the probability of its occurrence on the basis of past records, it can be insured. Fire, theft, accidents are examples of insurable risks.

Risk may be defined as the uncertainty of outcome of actions and events while delivering the objectives of the organisation.

Risk management includes the processes for identifying and assessing the inherent risks and then responding to them.

Risk minimization procedures aim to achieve an optimum response to risk. The PCS should verify that responses to risk are prioritized in accordance with the evaluation of the risks.

The PCS should also verify whether there is continuous process for risk identification and to recognize new risks which did not previously exist, changes in existing risks or risks ceasing to be relevant to the company.

The PCS should ensure that there is properly defined framework for risk identification and management and that the same has been appropriately reported. (Disclosure about Risk management may be made through the details given at **Appendix VIII.**)

Checklist

- Check if there is a documented risk management policy for the company. If so, verify if it has been approved by the Board.
- Does the Company have clear objectives and have they been communicated so as to provide effective direction on risk assessment and control issues ?
- Is there a clear understanding by management and others within the Company as to the nature of risks acceptable to the Board ?
- Is there a mechanism to inform the Board Members about risk assessment and minimization procedures ?

- How are processes/controls adjusted to reflect new and changing risks ?
- Ascertain if the Board has been provided the information as per the procedures established by the organization.
- Verify from the agenda/minutes of the Board meetings that these procedures have been reviewed periodically to ensure risk management through means of properly defined framework.

Compliance Inputs

- Agenda and Notes for meetings of the Board / Agenda and notes for meetings of the Audit Committee.
- Minutes of the Board meetings.
- Minutes of the Audit Committee.
- Risk Management Policy.

Voluntary Guidelines

C. Risk Management

- (i) The Board, its Audit Committee and its executive management should collectively identify the risks impacting the company's business and document their process of risk identification, risk minimization, risk optimization as a part of a risk management policy or strategy.
- (ii) The Board should also affirm and disclose in its report to members that it has put in place critical risk management framework across the company, which is overseen once every six months by the Board. The disclosure should also include a statement of those elements of risk, that the Board feels, may threaten the existence of the company.

E. Board to place systems to ensure compliance with laws

- (i) In order to safeguard shareholders' investment and the company's assets, the Board should, at least annually, conduct a review of the effectiveness of the company's system of internal controls and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.
- (ii) The Directors' Responsibility Statement should also include a statement that proper systems are in place to ensure compliance of all laws applicable to the company. It should follow the "comply or explain" principle.
- (iii) For every agenda item at the Board meeting, there should be attached an "Impact Analysis on Minority Shareholders" proactively stating if the agenda item has any impact on the rights of minority shareholders. The Independent Directors should discuss such Impact Analysis and offer their comments which should be suitably recorded.

Checklist

1. Check whether the company has put in place a formal risk management framework which has been approved by the Board of Directors.
2. Check the Board Minutes to ascertain whether the board periodically reviews the risk management process.

IV(D) Proceeds from public issues, rights issues, preferential issues etc.

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

- 4.6 Where money is raised through public/rights/preferential etc. issues, a Company must disclose to the Audit Committee the use/application of such funds under major heads such as capital expenditure, revenue expenditure (sales and marketing) or working capital. The above information must be disclosed as part of quarterly financial results. Further, the Company must annually disclose to the Audit Committee if the funds have been used for a purpose other than as stated in the offer document. The disclosures under the sub-clause must continue to be made till issue money is utilized in full. This statement must be certified by the statutory auditors.
- 4.7 The Audit Committee has authority to make appropriate recommendations to the Board regarding use and disclosures. As per Section 292A, the recommendations on any matter relating to financial management shall be binding upon the Board.
- 4.8 This requirement is in addition to that under Clause 43, according to which, every listed Company must furnish to the stock exchanges on a quarterly basis, a statement relating to utilization of funds raised by a public issue or rights issue of securities and to disclose in the Board's

report under Section 217 a statement of variation between projected utilization and actual utilization of funds.

Checklist

- Verify that the management has placed before the Audit Committee statement of funds utilized for purposes other than disclosed in the offer document, to the Audit Committee the uses / applications of funds by major category (capital expenditure, sales and marketing, working capital, etc), on a quarterly basis as a part of their quarterly declaration of financial results.
- Verify from the agenda/minutes whether the Company has placed before the Audit Committee details on annual basis, if the funds have been used for the purposes other than those stated in the notice/offer document/prospectus.
- Ascertain whether statement of utilization of funds is certified by the Auditors.
- Ascertain from the minutes of the Audit Committee meetings whether the Audit Committee has made any recommendations to the Board to take adequate steps in the matter.

Compliance inputs

- Prospectus/Letter of Offer.
- Disclosure under Clause 43.
- Disclosure under Section 217 of the Act in the Directors' Report.
- Report to the lending institutions, where applicable.
- Notes on Agenda in relation to meetings of Board/Audit Committee.
- Minutes of meetings of Board / Audit Committee.
- Statements of fund utilisation as certified by the auditors of the Company.

IV(E) Remuneration of Directors

- (i) **All pecuniary relationship or transactions of the non-executive directors vis-à-vis the Company shall be disclosed in the Annual Report.**
- (ii) **Further the following disclosures on the remuneration of directors shall be made in the section on the Corporate Governance of the Annual Report:**
 - (a) **All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension etc.**
 - (b) **Details of fixed component and performance linked incentives, along with the performance criteria.**

- (c) **Service contracts, notice period, severance fees.**
 - (d) **Stock option details, if any – and whether issued at a discount as well as the period over which accrued and over which exercisable.**
- (iii) **The Company shall publish its criteria of making payments to non-executive directors in its annual report. Alternatively, this may be put up on the Company's website and reference drawn thereto in the annual report.**
- (iv) **The Company shall disclose the number of shares and convertible instruments held by non-executive directors in the annual report.**
- (v) **Non-executive directors shall be required to disclose their shareholding (both own or held by / for other persons on a beneficial basis) in the listed Company in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director.**
- 4.9 The Company must disclose all pecuniary relationships or transactions of the non-executive directors with the Company in its Corporate Governance Report. Therefore all relationships or transactions which result in pecuniary benefit to the non-executive director should be ascertained and disclosed in the annual report. The word "material" is absent in this sub clause in contrast to sub-clause I(A)(iii)(a). Therefore, all pecuniary relationships or transactions between the Company and non-executive directors shall be disclosed.
- 4.10 This sub-clause requires the following disclosures on remuneration of directors in the Corporate Governance Report in respect of each director:
- (i) major heads of remuneration such as salary, benefits, bonus, stock options, pension etc;
 - (ii) fixed and variable components of incentives and criteria thereof;
 - (iii) service contract, notice period, severance fee;
 - (iv) stock option details, if any, whether issued at a discount, period over which accrued and period over which exercisable.
- 4.11 The criteria of making payments to non-executive directors can either be given in its annual report or can be made known through Company's website. In this case, Annual Report must draw attention to the website.
- 4.12 The number of shares and convertible instruments held by non-executive directors shall be disclosed in the annual report.
- 4.13 A non-executive director must disclose, prior to his appointment, his shareholdings including beneficial interest in the to-be-appointed listed

Company. This requirement is similar to the requirement spelt out in Section 307 of the Act, 1956. The Company would disclose these details in the notice of general meeting called for appointment of the director.

- 4.14 The sub-clause requires some of the aforesaid disclosures to be made in Annual Report and some in CGCC.

Checklist

- Verify that all pecuniary relationship or transactions of non-executive director vis-à-vis the Company have been disclosed in the Annual Report.
- Verify that there are specific disclosures on the remuneration of the directors.
- Verify if the Company has published its criteria of making payments to non-executive directors in its annual report or has referred to the fact that such information has been placed on the Company's website.
- Verify that prior to his appointment, a non-executive director has disclosed his/her shareholding (both own and held by / for other persons on a beneficial basis) in the Company in which he is proposed to be appointed as director.
- Verify that the individual holding of shares/convertible instruments of the non executive directors have been disclosed in the Annual Report.

Compliance Inputs

- Notices, notes, minutes and explanatory statements of meetings of the Board of Directors, Company and remuneration committee.
- Register of Directors' shareholding under Section 307 of the Act.
- Declaration of Beneficial Interest Section 187-C of the Act read with the Companies (Declaration of Beneficial Interest in Shares) Rules, 1975.
- Relevant Annual Report.

IV(F) Management

- (i) **As part of the directors' report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders. This Management Discussion and Analysis should include discussion on the following matters within the limits set by the Company's competitive position:**
- (i) **Industry structure and developments.**

- (ii) Opportunities and Threats.**
 - (iii) Segment-wise or product-wise performance.**
 - (iv) Outlook.**
 - (v) Risks and concerns.**
 - (vi) Internal control systems and their adequacy.**
 - (vii) Discussion on financial performance with respect to operational performance.**
 - (viii) Material developments in Human Resources / Industrial Relations front, including number of people employed.**
- (ii) Senior management shall make disclosures to the Board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the Company at large (for e.g. dealing in Company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)**

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

- 4.15 The Directors Report, *inter alia*, must contain a Management Discussion and Analysis Report which should include the following matters within the limits set by Company’s competitive position:
- (i) Industry structure and developments.
 - (ii) Opportunities and Threats.
 - (iii) Segment-wise or product-wise performance.
 - (iv) Outlook.
 - (v) Risks and concerns.
 - (vi) Internal control systems and their adequacy.
 - (vii) Discussion on financial performance with respect to operational performance.
 - (viii) Material developments in Human Resources / Industrial Relations front, including number of people employed.
- 4.16 Each member of the senior management is duty bound to inform the Board about all material i.e. significant financial and commercial

transactions with the Company, which may have a potential conflict with the Company at large. The materiality has to be examined in relation to the other parties to the contract. (An illustrative format of such declaration is given at **Appendix IX.**)

Checklist

- Verify that a “Management Discussion and Analysis” forms part of the director’s report to the shareholders.
- Check that the aforesaid report includes discussion on the matters specified in Clause (F)(i) within the limits set by Company’s competitive position.
- Verify that necessary disclosures have been made to the Board in terms of Clause (F)(ii).

Compliance Inputs

- Management Discussion and Analysis Report.
- Notes relating to each item to be included therein.
- Human Resources at work and their categories.
- Disclosure by senior management about all material financial and commercial transactions.
- Organization Chart.
- Agenda/Minutes of the meetings of the Board of Directors.

IV(G) Shareholders

- (i) **In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:**
 - (a) **A brief resume of the director;**
 - (b) **Nature of his expertise in specific functional areas;**
 - (c) **Names of companies in which the person also holds the directorship and the membership of Committees of the Board; and**
 - (d) **Shareholding of non-executive directors as stated in Clause 49 (IV) (E) (v) above.**
- (ia) **Disclosure of relationships between directors inter-se shall be made in the Annual Report, notice of appointment of a director, prospectus and letter of offer for issuances and any related filings made to the stock exchanges where the company is listed.**
- (ii) **Quarterly results and presentations made by the Company**

to analysts shall be put on Company's website, or shall be sent in such a form so as to enable the stock exchange on which the Company is listed to put it on its own web-site.

- (iii) A Board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. This Committee shall be designated as 'Shareholders / Investors Grievance Committee'.**
- (iv) To expedite the process of share transfers, the Board of the Company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority shall attend to share transfer formalities at least once in a fortnight.**

- 4.17 In respect of the appointment of or reappointment of a director, the listed Company must provide the following information to its shareholders:
- (a) A brief resume of the director;
 - (b) Nature of his expertise in specific functional areas;
 - (c) Names of companies in which the person is a director and membership of Committees of the Board; and
 - (d) Shareholding of non-executive directors as stated in Clause 49(IV)(E)(v).
- 4.18 The Company must put on its website quarterly results and the presentations made to analysts or must send the same to the Stock Exchange to enable it to put on its website.
- 4.19 The Company must form a "Shareholder/Investors Grievance Committee" under chairmanship of a non-executive director to redress shareholders and investor complaints.
- 4.20 The Company should expedite share transfers and for this purpose the Company shall delegate share transfer power to an officer or a committee or to a share transfer agent. Share transfer formalities should be attended to at least once in a fortnight.
- 4.21 Under sub-clause IV(G)(ia), relationships between directors inter-se shall be disclosed in the Report of Board of Directors.

Checklist

- Verify that the disclosures as mentioned in sub-clause IV (G) have been made.
- Verify that the quarterly results and presentations made to analysts have been put on the website of the Company.
- Verify from the correspondence made with the stock exchanges that such information has been sent to the stock exchange.

- Verify if a Shareholders/Investors Grievance Committee has been constituted and ascertain the terms of reference of the Committee.
- Verify that the Chairman of the Shareholders Grievance Committee is a non-executive director.
- Verify if the Board has delegated the powers of share transfer to an officer or a Committee or to the registrar and share transfer agents and if any such delegation has been made, verify whether such Committee attends to share transfer formalities at least once in a fortnight.
- Verify that relationships between directors *inter-se* are disclosed in the Report of Board of Directors.

Compliance Inputs

- Information about directors and candidates for directorships.
- Disclosures made by Directors.
- Information published on website.
- Quarterly results/presentation made to analysts.
- Minutes of Meeting of Board of Directors of the Company constituting Shareholders/Investors Grievance Committee.
- Resolution regarding delegation of authority for expeditious transfer of shares.

Voluntary Guidelines

- i. Companies should issue formal letters of appointment to Non-Executive Directors (NEDs) and Independent Directors-as is done by them while appointing employees and Executive Directors. The letter should specify:
 - The term of the appointment;
 - The expectation of the Board from the appointed director; the Board-level committee(s) in which the director is expected to serve and its tasks;
 - The fiduciary duties that come with such an appointment alongwith accompanying liabilities;
 - Provision for Directors and Officers (D&O) insurance, if any,;
 - The Code of Business Ethics that the company expects its directors and employees to follow;
 - The list of actions that a director should not do while functioning as such in the company; and
 - The remuneration, including sitting fees and stock options etc, if any.

- ii. Such formal letter should form a part of the disclosure to shareholders at the time of the ratification of his/her appointment or re-appointment to the Board. This letter should also be placed by the company on its website, if any, and in case the company is a listed company, also on the website of the stock exchange where the securities of the company are listed.

Checklist

1. Verify the terms of appointment of director as contained in the letter of appointment from :
 - (i) Minutes of Board Meeting
 - (ii) Notice of General Meeting
 - (iii) Minutes of General Meeting
2. Copy of letter of appointment issued to the director endorsing the receipt of the same.
3. Copy of Directors' and Officers' Insurance.
4. Copy of Code of Business Ethics.
5. Check whether the letter of appointment is placed on the Website of the company to.
6. Check whether the letter of appointment is placed on the Website of the stock exchange.

V. CEO/CFO CERTIFICATION

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

- (a) **They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:**
 - (i) **these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;**
 - (ii) **these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.**
- (b) **There are, to the best of their knowledge and belief, no transactions entered into by the Company during the year, which are fraudulent, illegal or violative of the Company's code of conduct.**

- (c) **They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of the internal control systems of the Company pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.**
- (d) **They have indicated to the auditors and the Audit committee**
 - (i) **significant changes in internal control over financial reporting during the year;**
 - (ii) **significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and**
 - (iii) **instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting.**

- 5.1 The above clause entrusts responsibility upon the CEO and the CFO for ensuring the legality of the financial transactions entered into by the company during the financial year. They should review the financial statements and certify to the Board that the statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading and these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- 5.2 It is recommended, that where the Company has more than one Managing Director, any one of them may sign the Certificate along with the CFO.
- 5.3 In respect of internal controls for financial reporting, it is the responsibility of the CEO/CFO to check their effectiveness and intimate the Board in case of any deficiency.
- 5.4 Further, the CEO/CFO should inform/apprise the Audit Committee of instances of significant frauds and involvement therein of any management personnel, if any, Instances of change in accounting policies and in the internal control system should also be intimated accordingly.

Checklist

- Verify, in the absence of the Whole time Finance Director, if any person has been designated as CFO by the Board for the purpose of certifying this clause along with CEO.
- Verify whether the CEO or Managing Director or Manager and Whole-time Finance Director or in the absence of the Whole time

Finance Director, the CFO or any other person designated as CFO, have certified to the Board the prescribed requirements.

- Verify whether the required certificate has been placed before the Board by the concerned persons.
- Verify that the matters as prescribed have been certified with the relevant documents such as the internal audit reports, the Audited Balance Sheet and the Profit and Loss Account together with the schedules and notes thereon.

Compliance Inputs

- Agenda papers/minutes of the meetings of Board of Directors.
- Resolution appointing CEO/CFO/other authorized person.
- Qualification and experience of CEO/CFO.
- CARO.

Voluntary Guidelines

V. Secretarial Audit

Since the Board has the overarching responsibility of ensuring transparent, ethical and responsible governance of the company, it is important that the Board processes and compliance mechanisms of the company are robust. To ensure this, the companies may get the Secretarial Audit conducted by a competent professional. The Board should give its comments on the Secretarial Audit in its report to the shareholders.

Secretarial Audit is basically compliance audit. It is a part of the total compliance management in an organization.

Checklist

1. Verify from the minutes of the Board / Audit Committee whether the company gets Secretarial Audit done.
2. Verify whether the Secretarial Audit Report is placed before the Board of Directors.
3. Verify from the Minutes of the Board, the comments of the Board on Secretarial Audit.
4. Verify whether the Board's report to the Members contains the comments of the Board on the Secretarial Audit.

VI. Report on Corporate Governance

- (i) **There shall be a separate section on Corporate Governance in the Annual Reports of Company, with a detailed compliance report on Corporate Governance. Non-compliance of any mandatory requirement of this clause with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted. The**

suggested list of items to be included in this report is given in Annexure 1C and list of non-mandatory requirements is given in Annexure 1D.

(ii) The companies shall submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the format given in Annexure 1B. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the Company.

- 6.1 Every Annual Report of a listed Company must contain a compliance report on Corporate Governance.
- 6.2 The Corporate Governance report should contain the information as given in Annexure 1C to the above clause. In addition, it should spell out the compliance with the requirements of the clause, as well as the non-compliance of any of the mandatory requirements, with reasons thereof at the appropriate places. It should also spell out the extent to which the non-mandatory requirements have been adopted as given in Annexure 1D.
- 6.3 The Company is also required to submit a Compliance Report to the Stock Exchanges within 15 days from the end of the quarter. The report should be in the format given in Annexure 1B of the Clause. This report shall be signed by either the Compliance officer or the CEO.
- 6.4 Compliance Officer is an officer of the Company who has been appointed as such and whose name has been reported to the Stock Exchange as per the requirements of the Listing Agreement.

Checklist

- Verify whether, the Company has submitted a quarterly compliance report in the prescribed format to every stock exchange on which the Company's securities are listed, within 15 days from the close of the quarter.
- Verify that, the report has been signed by either the Compliance Officer or the Chief Executive Officer of the Company.
- Verify if, annual report contains a separate section on 'Corporate Governance' with a detailed compliance report on 'Corporate Governance'.
- Verify if, the report on Corporate Governance includes the suggested list of items as specified in Annexure 1C of Clause 49.
- Verify that, in the case of any non-compliance of mandatory requirements, the necessary disclosure in this regard has been highlighted in the Report.
- Verify if, the Company has disclosed in the Report non-compliance with any of the non-mandatory requirements specified in Annexure 1D of Clause 49 and reasons thereof. .

Compliance Inputs

- Intimations sent to the Stock Exchange
- Annual Report
- Corporate Governance Report

VII. Compliance

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

- 7.1 Every listed Company shall obtain a certificate annually *inter alia*, from a PCS confirming that the Company has complied with the conditions of Corporate Governance as per this clause, for the financial year as per the annual report. It is recommended that the PCS, who issues the compliance certificate, stays involved at the time of preparation of quarterly compliance certificate. It would facilitate certification of compliance of conditions of Corporate Governance. The aforesaid certificate will be annexed to the Directors' Report.
- 7.2 The PCS will examine the relevant registers, records, documents including the quarterly compliance reports and seek information and explanations from the management of the Company so as to establish the proper compliance of the conditions of Corporate Governance as stipulated in this clause.
- 7.3 The scope of CGCC would comprise certification of compliance of the conditions of Corporate Governance as stipulated in this clause. The responsibility of PCS in certifying compliance of the conditions of Corporate Governance would relate to verification and certification of factual implementation of conditions stipulated in this clause.
- 7.4 Format of the Compliance Certificate has not been prescribed. (However a suggested format has been given at **Appendix X**).
- 7.5 Copy of the certificate has to be sent along with the Annual Report together with the Board of Directors' reply on the non-compliance, if any, to the Stock Exchanges.

Appendix I*(Refer para 1.3)***FORMAT OF DECLARATION WHICH THE COMPANIES MAY
OBTAIN FOR APPOINTMENT OF AN INDEPENDENT DIRECTOR**

The Board of Directors

M/s.....

Dear Sir,

I satisfy the conditions of independence specified in Clause 49 of the Listing Agreement.

- (a) I declare that, as on date I do not have any material pecuniary relationship or transactions with the Company, its promoters, its directors, its senior management or its holding Company, its subsidiary and associates as named in the Annexure hereto which affects my independence as director on the Board of the Company.
- (b) I declare that, I am not related to promoters or persons occupying management positions at the board level or at one level below the board and also have not been an executive of the Company in the immediately preceding three financial years.
- (c) I declare that, I was not a partner or an executive or was also not partner or an executive during the preceding three years, of any of the following:
 - (i) the statutory audit firm or the internal audit firm that is associated with the Company, and
 - (ii) the legal firm(s) and consulting firm(s) that have a material association with the Company.
- (d) I am not a material supplier, service provider or customer or a lessor or lessee of the Company, which may affect my independence as a director;
- (e) I do not own two percent or more of the block of voting shares of the Company.

I will keep the Board informed in the event of any change in the above position, if appointed as an Independent Director.

Thanking you,

Yours faithfully,

Name

Date : _____

Place : _____

Appendix IA
(Refer para 1.3)

**FORMAT OF DECLARATION WHICH THE COMPANIES MAY
OBTAIN FROM ITS INDEPENDENT DIRECTORS
ON ANNUAL BASIS**

The Board of Directors

M/s.....

Dear Sir,

I was appointed as an Independent Director of the Company on

I satisfy the conditions of independence specified in Clause 49 of the Listing Agreement.

I undertake to comply with the conditions laid down in sub-clause of Clause 49 in relation to conditions of independence and in particular:

I declare that upto the date of this certificate, apart from receiving director's remuneration, I did not have any material pecuniary relationship or transaction with the Company, its promoters, its directors, any member of its senior management or its holding Company, its subsidiary and associates as named in the Annexure hereto, which may affect my independence as director on the Board of the Company. I further declare that, I will not enter into any such relationship / transaction without the prior approval of the Board.

- (b) I declare that, I am not related to promoters or persons occupying management positions at the board level or at one level below the board and also have not been an executive of the Company in the immediately preceding three financial years.
- (c) I was not a partner or an executive or was also not partner or an executive during the preceding three years, of any of the following:
 - (i) the statutory audit firm or the internal audit firm that is associated with the Company, and
 - (ii) the legal firm(s) and consulting firm(s) that have a material association with the Company.
- (d) I have not been a material supplier, service provider or customer or a lessor or lessee of the Company, which affects my independence as a director.
- (e) I am not a substantial shareholder of the Company i.e. owning two percent or more of the block of voting shares.

- (f) I will keep the Board informed in the event of any change in the above position.

Thanking you,

Yours faithfully,

Name

(Independent Director)

Date : _____

Place : _____

Appendix II

(Refer para 1.15)

FORMAT FOR DISCLOSING INFORMATION ABOUT EACH DIRECTOR*(As on last date of financial year)*

Name of Director :

Position of Director : Chairman/CEO/ND etc

Category of Director : Executive / Non-executive/
Independent / Nominee/ Promoter

If nominee, whether Institution is Lending or investing institution:

Academic qualifications :

Date of joining the Company :

Relationship with other directors :

Total number of directorships :

No. of committee memberships
across Companies :

Chairmanship in number of
committees :

<i>Directorship details</i>	<i>Committee membership/Chairmanship details</i>
<i>Name of the Company</i>	<i>Name(s) of Committee(s) in the Company</i>
— Indian	
— Executive	
— Non-executive	
— Foreign	
— Executive	
— Non-executive	

Appendix III*(Refer para 1.18)***II. A Model Code**

With a view to maintain the high standards of Corporate Governance in the Company, the following rules / code of conduct should be observed in all activities of the Board for the purposes of the code. The Company appoints the Company Secretary as a compliance officer, who will be available to directors and senior management to answer questions and to help them comply with the code.

ILLUSTRATIVE CODE OF CONDUCT FOR BOARD OF DIRECTORS and SENIOR MANAGEMENT**I. What is a “Code of Conduct”?**

A code of conduct is a written document that outlines the Company's values, principles and guidelines in a variety of areas and enables companies to publicly state to their suppliers, customers, consumers, shareholders and other stakeholders, the manner in which they intend to do business. Codes of Conduct are statements of behavioral ideals, exhortations or prohibitions, common to a culture, profession, corporation or trade / industry association. Codes combine philosophical statements and high ideals with admonitions to avoid specific legal action and to espouse certain moral principles, especially those that elevate personal behavior.

An effective Code of Conduct can result in:

- more effective compliance with relevant laws
- more effective management and
- maintenance of the integrity and reputation of the organisation

Codes vary according to their intended function. Codes are sometimes called “Corporate Directives”, “Standards of Business Conduct”, “Statement of Values” or “Codes of Best Practices”.

The preface or the preamble usually outlines the basic philosophy of the Company and the scope of the code.

In the following sections, are given a model code of conduct and some broad guidelines for corporates on drafting and implementing such a code for directors on the board of their companies.

II. A Model Code**Preamble**

All Directors and Senior Management must act within the bounds of the authority conferred upon them and with a duty to frame policies and take informed decisions in the best interests of the Company and its shareholders/ stakeholders.

With a view to maintain high standards of Corporate Governance in the Company, the following rules / code of conduct should be observed in all activities of the Company by the directors and the members of the senior management. The Company Secretary is appointed as the Company's Compliance Officer, who will be available to them, to answer questions and to help them comply with the code.

(1) *Honesty and integrity*

All directors and members of the senior management shall conduct their activities, on behalf of the Company and on their personal behalf, with honesty, integrity and fairness. They will act in good faith, responsibly, with due care, competence and diligence, without allowing their independent judgment to be subordinated. They will act in the best interests of the Company and fulfill their fiduciary obligations.

(2) *Conflict of interest*

Directors and members of the senior management of the Company shall not engage in any business, relationship or activity, which may be in conflict with the interest of the Company.

Conflicts can arise in many situations with respect to directors, members of the senior management and their immediate families. It is not possible to cover every possible conflict situation and at times, it will not be easy to distinguish between proper and improper activity. Set forth, are some of the common circumstances that may lead to a conflict of interest, actual or potential:

- (i) Engaging in any activity / employment that interferes with the performance or responsibility to the Company or is otherwise in conflict with or prejudicial to the Company.
- (ii) Acquiring any interest in companies, customer, supplier, developer or competitor that could compromise their duty to their Company.
- (iii) Conducting Company business with a relative or with a firm / Company in which a relative / related party is associated in any significant role. If such related party transaction is unavoidable, it must be fully disclosed to the Board or to the CEO of the Company.

(3) *Compliance*

Directors are required to comply with all applicable laws, rules and regulations, both in letter and in spirit. In order to assist the Company in promoting lawful and ethical behaviour, directors must report any possible violation of law, rules, regulation or the code of conduct to the Board.

(4) *Other Directorships*

Senior management should not accept Board positions in other companies without the prior approval of the Company.

(5) *Confidentiality of information*

Any information concerning the Company's business, its customers, suppliers etc., which is not in the public domain and to which the director has access or possesses such information, must be considered confidential and held in confidence, unless authorized to disclose or when disclosure is required by law. No director or members of the senior management shall use such information for personal gain or provide such information either formally or informally, in the public domain, unless specifically authorized.

(6) *Insider trading*

No director or members of the senior management of the Company should deal with the company's securities while in possession of unpublished, price sensitive information nor should such information be shared by them with others with a view to derive any benefit.

All directors and members of the senior management should comply with the guidelines for prohibition of insider trading, issued by the Company.

(7) *Gifts and donations*

No director or members of the senior management of the Company shall receive or offer, directly or indirectly, any gifts, donations, remuneration, hospitality, illegal payments or such other benefits which are intended (or perceived to be intended) to obtain undue business favours. Gifts of commemorative nature of a nominal value of Rs., for special events may be accepted.

(8) *Protection of assets*

Directors and members of the senior management must protect the Company properties and assets of the Company and should not use these for personal purposes.

(9) *Periodic review*

Once every year or upon revision of this code, every director and members of the senior management must confirm compliance. New directors should undertake compliance at the time of their appointment.

III. Guidelines for Companies

A Model, not a prescription

There are different sectors in the business / corporate world. The issues faced by different segments may vary. The core values expressed in the code, should be shared values within the Company. The laws and regulations applicable to one sector, may not apply to other sectors. Above all, the tone and style of the codes of conduct, will depend on the management style and the corporate culture.

It is therefore, not possible to prescribe a code that fits the needs of all companies without making it unwieldy and partially irrelevant. For these reasons, this code is a model (to be adapted and modified) and not a prescription.

It is important to keep the code of conduct up to date. It should be reviewed at regular intervals to ensure that it reflects changes in the law / regulatory environment and gives appropriate emphasis to current issues of concern.

Appendix IV*(Refer para 2.11)***ILLUSTRATIVE WHISTLEBLOWER POLICY**

As a public Company, the integrity in the financial matters of the “Company” and the accuracy of its financial information is paramount. The Company’s financial information guides the decisions of the Board of Directors of the Company (Board). The stockholders of the Company and the financial markets rely on this information to make decisions. For these reasons, the Company must maintain a workplace where it can retain and treat all complaints concerning questionable accounting practices, internal accounting controls, or auditing matters (Questionable Accounting/Audit Matters), or concerning the reporting of fraudulent financial information to our shareholders, the Government or the financial markets. The employees should be able to raise these concerns free of any discrimination, retaliation or harassment.

The Company recognizes the value of transparency and accountability in its administrative and management practices. Therefore, it supports the making of disclosures that reveal serious misconduct, i.e., conduct which results in violation of law by the Company or in a substantial mismanagement of Company resources, and if proven constitutes a criminal offence or reasonable grounds for dismissal of the person engaging in such conduct.

Therefore, it is the policy of the Company to encourage employees, when they reasonably believe that Questionable Accounting/Audit Matters, on the reporting of fraudulent financial information to our shareholders, the Government or the Financial markets and/or serious misconduct has occurred or is occurring, to report those concerns to the Company’s management (on an anonymous basis, if employees so desire) or to raise those concerns by sending e-mail to the Company’s e-mail id for this purpose, on an anonymous basis, as described below.

All reports will be taken seriously and will be promptly investigated. The specific action taken in any particular case depends on the nature and gravity of the conduct or circumstances reported, and the quality of the information provided. Where Questionable Accounting /Audit Matters have occurred, or fraudulent financial information has been reported to our shareholders, the Government or the financial markets, or serious misconduct has occurred, those matters will be corrected and, if appropriate, the persons responsible will be disciplined.

In addition, the Company is committed to providing a work environment in which employees, when they reasonably believe that Questionable Accounting/Audit Matters have occurred, or that fraudulent financial information has been reported to our shareholders, the Government or the financial markets, or that serious misconduct has occurred, can raise those concerns free of discrimination, retaliation or harassment. Accordingly, the Company strictly prohibits discrimination, retaliation or harassment of any kind against any employee who, based on the employee’s reasonable belief that such conduct or practices have occurred or are occurring reports that information.

Reporting and Investigation

If you have reason to believe that you have become aware of Questionable Accounting/Audit Matters, or the reporting of fraudulent financial information to our shareholders, the Government or the financial markets, or you are aware of any serious misconduct taking place, you must immediately report those facts to your immediate supervisor or to the corporate counsel. You may then be requested to document your report in writing. If you have reason to believe that both of those individuals are involved in these matters, you should report those facts to the Audit Committee of the Company's Board of Directors (the "Audit Committee"). You may also report your concerns anonymously by sending e-mail to the e-mail id or by sending an anonymous letter to the corporate counsel.

If you later believe that you have been subjected to discrimination, retaliation or harassment for having made a report under this Policy, you must immediately report those facts to your immediate supervisor or the Corporate Counsel. If, for any reason, you do not feel comfortable discussing the matter with your immediate supervisor or the Corporate Counsel, you should bring the matter to the attention of the supervisor of your immediate supervisor, and if you are not comfortable with discussing the matter with any of those individuals, you should bring the matter to the attention of the Audit Committee. It is imperative that you bring the matter to the Company's attention promptly so that any concern of discrimination, retaliation or harassment can be investigated and addressed promptly and appropriately.

All complaints under this policy will be promptly and thoroughly investigated, and all information disclosed during the course of the investigation will remain confidential, except as necessary to conduct the investigation and take any remedial action, in accordance with applicable law. All employees and supervisors have a duty to co-operate in the investigation of reports of Questionable Accounting / Audit Matters, or the reporting of fraudulent financial information, or of serious misconduct, or of discrimination of such matters. In addition, an employee shall be subject to disciplinary action, including the termination of their employment, if the employee fails to co-operate in an investigation, or deliberately provides false information during an investigation. If, at the conclusion of its investigation, the Company determines that a violation of policy has occurred, the Company will take effective remedial action commensurate with the severity of the offence. This action may include disciplinary action against the person complained against and may also include termination. Reasonable and necessary steps will also be taken to prevent any further violations of policy.

Discrimination, Retaliation or Harassment

The Company strictly prohibits any discrimination, retaliation or harassment against any person who reports incidents of questionable accounting or auditing matters, or the reporting of fraudulent financial information, or of serious misconduct, based on the person's reasonable belief that such misconduct occurred. The Company also strictly prohibits any discrimination, retaliation or

harassment against any person who participates in an investigation of complaints about questionable accounting or auditing matters, or of the reporting of fraudulent financial information, or of serious misconduct.

Any complaint that any managers, supervisors, or employees are involved in discrimination, retaliation or harassment related to the reporting or investigation of questionable accounting or auditing matters, or the reporting of fraudulent financial information, or of serious misconduct, shall be promptly and thoroughly investigated in accordance with the Company's investigation procedures. If a complaint of discrimination, retaliation or harassment is substantiated, appropriate disciplinary actions, up to and including discharge, will be taken.

Retention of Documents

All documents related to the reporting, investigation and enforcement of this policy, as a result of a report of questionable accounting, internal accounting controls, or auditing matters, or the reporting of fraudulent financial information to our shareholders, the Government or the financial markets or of serious misconduct, or of the discrimination, retaliation or harassment of an employee that made such a report, shall be kept in accordance with the Company's record retention policy and applicable law.

Additional Enforcement Information

In addition, to the Company's internal complaint procedure, employees should also be aware that certain law enforcement agencies are authorized to review questionable accounting or auditing matters, or potentially fraudulent reports of financial information. The Company's policies and practices have been developed as a guide to our legal and ethical responsibilities to achieve and maintain the highest business standards. Conduct that violates the Company's policies will be viewed as unacceptable under the terms of employment at the Company. Certain violations of the Company's policies and practices could even subject the Company and any individual employees involved to civil and criminal penalties. Before the situation becomes such that civil and criminal penalties are attracted, employees are encouraged to report Questionable Accounting /Audit Matters, suspicion of fraudulent financial information, or serious misconduct, or discrimination, retaliation or harassment related to such reports. Nothing in this Policy is intended to prevent an employee from reporting information to the appropriate agency when the employee has reason to believe that the violation of a statute or regulation has occurred.

Modification in the policy

The audit committee or the Board of Directors of the Company can modify this Policy unilaterally at any time without notice. Modification may be necessary, among other reasons, to maintain compliance with laws and regulations and/or accommodation of organizational changes within the Company.

Acknowledgement and agreement regarding the Whistle Blower Policy*

This is to acknowledge that I have received a copy of the Company's Whistle Blower Policy. I understand that, as a public Company, the integrity of

the financial information of the Company is paramount. I further understand that the Company is committed to a work environment free of discrimination, retaliation or harassment for employees who have raised concerns regarding questionable accounting, internal accounting controls, or auditing matters, or reporting of fraudulent financial information, or of serious misconduct and that the Company specifically prohibits discrimination, retaliation or harassment whenever an employee makes a good faith report regarding such concerns. Accordingly, I specifically agree that to the extent I have concerns that I reasonably believe to be related to questionable accounting, accounting controls, auditing matters, or reporting of fraudulent financial information, or of serious misconduct, or which is otherwise in violation of the Company's policies, I will immediately report such conduct in accordance with the Company's Whistle Blower Policy.

I understand and agree that to the extent I do not use the procedures outlined in the Whistle Blower Policy, the Company and its officers and directors shall have the right to presume and rely on the fact that I have no knowledge or concern of any such information or conduct.

.....

Employee's Signature

.....

Employee's Name

.....

Employee's Number

.....

Date

.....

- * Please sign the acknowledgement form above and return it to the Human Resources Department of the Company. This will let the Company know that you have reviewed the Whistle Blower Policy and are aware of the Company's commitment to a work environment free of discrimination retaliation or harassment for reporting of questionable accounting, internal accounting controls, or auditing matters, or fraudulent financial information, or serious misconduct as well as your obligations to report such information.

Appendix V*(Refer para 2.12)***ILLUSTRATIVE AUDIT COMMITTEE CHARTER****1. Purpose**

Overseeing the accounting and financial reporting processes, audit of financial statements, internal audit and internal control systems, adequacy of disclosures in financial statements and reports of earnings.

2. Responsibility

To assist the Board in its overseeing functions relating to –

- quality and integrity of disclosures contained in the audited and unaudited financial statements;
- compliance with legal and regulatory requirements;
- qualifications, experience, performance and independence of external auditors including external auditors of Company's material listed and unlisted subsidiaries;
- integrity of the internal controls established from time to time by including those of the material listed and unlisted subsidiaries;
- investments of the Company and its material listed and unlisted subsidiaries.

3. Members of Audit Committee

- The Board of Directors shall, subject to applicable regulatory requirements, determine the composition of the audit committee.
- The Chairman of the audit committee shall be an independent director.
- Not less than two-thirds of the strength of the audit committee shall be independent directors.
- All the members of the committee must be financially literate and at least one member should have related accounting or financial management experience and expertise.
- The Board shall decide the Chairman of the committee.
- Members must have suitable experience and must be familiar with the financial reporting practices of publicly listed companies.
- The Board may fill vacancies on the committee.
- If a vacancy exists, the remaining members of the committee may exercise all of its powers so long as there is a quorum and so long the strength of the committee does not fall below the statutory minimum strength stipulated by the listing agreement/Companies Act.

- In the absence of the Chairman, the Committee may appoint one of its other members to act as Chairman of that meeting.
- The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder's queries. In case it becomes difficult for the Chairman to attend, any other member of the audit committee who is an independent director shall be present at the Annual General Meeting to answer queries of shareholders.
- The Chairman has the primary responsibility for monitoring developments with respect to financial reporting in general, and reporting to the Committee on any significant developments.

4. Invitees, Ex-officio Member and Secretary

- The audit committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee.
- The finance director, statutory auditor and head of internal audit shall be present as invitees for the meetings of the audit committee.
- The Company Secretary shall act as the secretary to the committee.
- No invitee (does not include ex-officio member) shall be entitled to detailed notes and other materials sent to members of the committee.
- Invitees are not eligible to inspect or have a copy of the minutes of committee meetings.

5. Frequency of Meetings

- The Chair, in consultation with the other members of the Committee, will determine the schedule and frequency of meetings of the Committee and the agenda for discussion.
- The audit committee should meet at least four times in a year and not more than four months shall elapse between two meetings.

6. Quorum

The quorum shall be the presence of either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present. Where the prescribed quorum is not present, the meeting shall stand adjourned to the same day, same time at the same or another venue and no notice of such adjourned meeting is essential if the venue is also the same. Fresh items of business can be taken up at adjourned meetings if fresh notice is given to all those who are entitled to notice.

7. Agenda

The agenda and notes shall be circulated to the members of the committee in advance to ensure sufficient time for study prior to the meeting.

8. Minutes and confirmation of minutes

- The secretary of the Committee will keep regular minutes of Committee proceedings.
- He shall get it confirmed by the Chairman of the audit committee.
- After confirmation by chair, he shall circulate the draft minutes to all members of the committee.
- He shall, subject to any feedback from those who had received the draft, get the minutes duly signed by the Chairman of the committee. The decision of the Chairman of the committee shall be final with regard to inclusion of any matter in the minutes.
- The Secretary shall place the minutes of meetings of the committee before the Board at the next meeting of Board that follows each committee meeting for information and necessary further action/clarification/decision.

9. Committee Duties, Powers and Responsibilities

The Committee is responsible for performing the duties set out in this charter as well as any other duties that may be assigned to it by the Board and performing any other functions that may be necessary or appropriate for the performance of its duties. The Committee may, in its sole discretion, retain counsels, auditors and other advisors for proper execution of its duties and responsibilities and the Company shall pay expenses in connection therewith.

10. Independent Auditor's Qualifications and Independence

- The Committee shall review periodically the performance of the external auditors and internal auditors.
- The Committee may make necessary recommendations to the Board from time to time the firms or firms of auditors who would be best suited for the Company.
- The Committee shall, take into account, considering the scale of operations, determine the services to be performed by the external auditors and the areas to be covered by the internal auditors.
- The Committee shall also recommend appropriate compensation to be paid to the external and internal auditors.

11. Powers of Audit Committee vis-à-vis Role of Independent Auditors

- Without prejudice to the independent nature of office of external statutory auditors and their reporting to shareholders, the independent auditors shall be reporting directly to the Committee.
- The Committee shall be responsible for overseeing the work of the independent external auditor engaged for the purpose of

preparing or issuing an auditor's report to shareholders, review and attest the services rendered by them.

- The Committee shall also be responsible for resolution of disagreements between management and the external auditors regarding financial reporting.
- The Committee must pre-approve any permitted non-audit services to be provided by the independent auditor to the Company or its subsidiaries.
- The Committee may delegate to one or more of its members the authority to pre-approve those permitted non-audit services and provided any such pre-approval must be ratified by the Committee at its next meeting.
- The independent auditors shall not be assigned any non-audit internal control related services.
- The Committee will obtain and review with the senior audit partner of the independent audit firm or firms, annually or more frequently as the Committee considers necessary, a report concerning:
 - (a) the independent auditor's internal quality-control procedures;
 - (b) any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditor, or by any inquiry, review or investigation by governmental, professional or other regulatory authorities, within the preceding five years, respecting independent audits carried out by the independent auditor, and any steps taken to deal with these issues; and
 - (c) all relationships between the independent auditor and the Company and the independent auditor's objectivity and independence in accordance with the rules, policies and standards applicable to auditors.
- After reviewing the report referred to above and the independent auditor's performance throughout the year, the Committee will evaluate the independent auditor's performance and independence.
- The evaluation will review the audit firm as a whole with a specific reference to the lead partner and other partners of the firm or firms who attend to the external audit and other attest functions of the Company.
- In making its evaluation, the Committee will take into account the opinions of management and the Company's internal auditors.
- The Committee shall also consider whether, in order to assure continuing auditor independence, there should be a rotation of the audit firm itself.

- The Committee shall present its conclusions to the Board.
- The Committee will review with the Board any issues that arise with respect to the performance and independence of the independent auditor and where issues arise make recommendations about whether the Company should continue with that independent auditor.
- The Committee will regularly review with the independent auditor any difficulties the auditor encountered in the course of its audit work, including any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management.
- The Committee may recommend rotation of members of the independent auditor's team whether required by law or not.

12. Review of Internal Audits and Internal Controls

- The Committee will meet separately and periodically with management, the internal auditors (or other personnel responsible for the internal audit function) and the independent auditor.
- The Committee will oversee management's design and implementation of an adequate and effective system of internal controls at the Company and its listed subsidiaries, including ensuring adequate internal audit functions.
- The Committee will review the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
- The CEO / CFO shall disclose to the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.
- The CEO / CFO shall bring to the attention of the audit committee–
 - (i) Particulars of significant changes in internal control during the year;
 - (ii) Particulars of significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - (iii) Instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system.
- The Committee will review the processes for complying with internal

control reporting and certification requirements and for evaluating the adequacy and effectiveness of specified controls.

- The Committee will review the annual and interim conclusions of the effectiveness of the Company's internal controls and procedures.
- The Committee shall see the management letters / letters of internal control weaknesses issued by the statutory auditors and review the internal audit reports relating to internal control weaknesses.

13. Financial Statements and Financial Review

- The Committee will review with the management and the external auditor the following:
 - (a) All major issues regarding accounting principles and financial statement presentations.
 - (b) Critical accounting principles and practices used.
 - (c) Any significant changes to the Company's selection or application of accounting principles.
 - (d) All major issues regarding the adequacy of the Company's internal controls.
 - (e) Any special audit steps adopted in light of material control deficiencies.
 - (f) Analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analysis of the effects of alternative GAAP methods on the financial statements of the Company and the treatment preferred by the independent auditor.
 - (g) The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.
 - (h) The type and presentation of information to be included in earnings press releases, subject to regulatory requirements.
- The Committee will review the annual audited financial statements and quarterly financial statements with management and the independent auditor, including Management Discussion and Analysis, before their release and their filing as applicable.
- The Committee will also review all news releases relating to annual and interim financial results prior to their public release.

- The Committee will review, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
 - (a) Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of Clause (2AA) of Section 217 of the Companies Act, 1956.
 - (b) Changes, if any, in accounting policies and practices and reasons for the same.
 - (c) Major accounting entries involving estimates based on the exercise of judgment by management.
 - (d) Significant adjustments made in the financial statements arising out of audit findings.
 - (e) Compliance with listing and other legal requirements relating to financial statements.
 - (f) Disclosure of any related party transactions.
 - (g) Qualifications in the draft audit report.
- The Committee will also consider, establish, and periodically review policies with respect to the release or distribution of any other financial information, including earnings guidance and any financial information provided to ratings agencies and analysts, and review that information prior to its release.
- The Committee will also review with the independent auditor any material communications with the independent auditor, including any management letter or schedule of unadjusted differences.
- The Committee will review with management, and any outside professionals as the Committee considers appropriate, important trends and developments in financial reporting practices and requirements and their effect on the Company's financial statements.
- The Committee will review with management and the independent auditor the scope of the proposed audit for the current year.
- The Committee will also review the organization, responsibilities, plans, results, budget and staffing of the internal audit departments.
- In addition, management of the Company's unlisted subsidiaries may consult with the committee regarding the appointment, replacement, reassignment or dismissal of personnel in the respective internal audit departments.

14. Related Party Transactions

The committee shall review the statement of significant related party transactions (as defined by the audit committee), submitted by

management. The Secretary shall be responsible for presenting to the committee -

- A statement in summary form of transactions with related parties in the ordinary course of business.
- Details of material individual transactions with related parties which are not in the normal course of business.
- Details of material individual transactions with related parties or others, which are not on an arm's length basis should be placed, together with Management's justification for the same.

15. Risk Management

- The Committee will discuss with management and analyse all major financial and other risk exposures.
- The Committee will carry out an independent assessment of all major short term and long-term risks that are likely to be of concern to the Company.
- The Committee will review the risk management policy and risk management systems.
- The Committee will review the action taken with regard to exposure to various risks and will oversee the steps that have been taken to overcome or counter major risks.
- The Committee will make appropriate recommendations about the steps to be taken.

16. Litigations, Disputes, Defaults and Complaints

- The Committee will review with management, and any internal or external counsel as the committee considers necessary, all litigations, deadlock situations, disputes and controversies that may have a material impact on the Company.
- The Committee will review all material adverse findings, reports, notices and inquiries from Government and other statutory authorities and regulators.
- The Committee shall establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, auditing matters or potential violations of law.
- The Committee shall establish procedures regarding confidential, anonymous submission by employees of the Company regarding questionable accounting, internal accounting controls or auditing matters or potential violations of law or established procedures/systems.

- The Committee shall look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

17. Hiring persons connected with Firm of Independent Auditors

The opinion of the committee shall be necessary, final and binding with regard to hiring of any former employee or officer or partner of any present or past firm of external auditors of the Company or its subsidiaries.

18. Whistle Blower Policy

- The Committee shall review the whistle blower policy, if there is one.
- The Committee may make appropriate recommendations regarding the need for and suggest procedures for the establishment of a whistleblower policy.

Appendix VI

(Refer para 4.1)

DISCLOSURE ON MATERIALLY SIGNIFICANT RELATED PARTY TRANSACTIONS ENTERED INTO BY THE COMPANY OR ITS SUBSIDIARIES WITH ITS PROMOTER(S), DIRECTOR(S), MANAGEMENT OR RELATIVES, ETC.

The Company/its subsidiary named entered on..... (date) into materially significant related party transaction(s), the details of which are given as under, with its promoter(s)/the director(s)..... (Name),Name(s), officer holding the position of in the management (Name)*.

.....
.....
.....

The Company/its subsidiary (name of subsidiary) entered on.....(date) into materially significant related party transaction, the details of which are given hereunder, withwho is relative of promoter/director/ officer of management(name).

The quantum of related party transaction in rupee value terms is

The transaction may be potentially in conflict with the interest of the Company.

Signature.....

Name

Designation.....

Date :

Place :

* Delete whichever is not applicable.

Appendix VIII*(Refer para 4.5)***DISCLOSURE ABOUT RISK MANAGEMENT**

Political Risks	
Business Risks	<ul style="list-style-type: none"> Client construction Credit control Geographical Risks Economic Risks Technology risks
Financial Risks	<ul style="list-style-type: none"> Liquidity Leverage Foreign Currency Fluctuation
Legal & Statutory Risks	<ul style="list-style-type: none"> Legal and Statutory Risks Contractual Liabilities Statutory Compliances
Management Risks	<ul style="list-style-type: none"> Human Resources management and enhancement Internal upgradation Internal Control Systems Disaster Recovery Plans

Appendix VIIIA**RISKS AND CONCERNS AND RISK MITIGATION**

The Company has built up a risk inventory of all the identified risks cutting across its various business units. The risks have been prioritized through a company-wise exercise. Members of senior management have undertaken the ownership of the top risks of the Company and work on mitigating the same.

The Company has adopted risk management policies commensurate with the size and requirements of business to manage risks in the different following mentioned categories:

- Political
- Foreign Exchange
- Credit risks
- Operating Risk: Technical
- Operating Risk: Management
- Market
- Environmental

The policies are reviewed regular keeping in tandem with the developments taking place from time to time and the volatile corporate scenario.

Political risks

This is normally a mix of risk categories such as nationalisation, currency inconvertibility, regulatory and tax risks. The risk of currency inconvertibility is usually due to arbitrary government action caused by serious balance-of-payment problems. The impact of tax changes as and when introduced by the Government may also be an ingredient of risk. The most difficult aspect of political risk assessment is the impact of non-government political activists.

One of the most common methods of mitigating this risk is, to get an Insurance cover.

Country level risks

The Company is expanding its global footprint and establishing operations in many countries. The Company therefore carries the risk of one or more geographic markets collapsing because of unforeseen general macro-economic factors and political turmoil. To mitigate this risk, the Company has comprehensive business continuity plans in place. The Company is building deep customer relationships and has a well diversified geographic spread.

Credit Risks

Credit risk is risk due to uncertainty in counterparty's ability to meet its obligations in relation to lending, trading, hedging or any other financial

transaction. As there are many types of counterparties—from individuals to sovereign governments—and many different types of obligations—from loans to derivatives transactions—credit risk takes many forms. Institutions manage it in different ways.

In assessing credit risk from a single counterparty, an institution must consider three issues: default probability, the amount of credit exposure and the recovery rate. Regular appraisal of credit proposals, risk evaluation shall aid in mitigating such risks. Companies may provide for loan review mechanism, ceiling on credit exposures, adequate portfolio management as one of the few methods to deal with credit risk.

Foreign Exchange risk

This may arise as a result of adverse exchange rate movements during a period in which the company may have an open position in any combination of foreign currencies. Foreign exchange exposure can also occur when project revenues differ from the currency of the project loan. The best hedge is to match the loan currency to the (underlying) currency in which the price/tariff is set. A further step is to match equipment purchases to the sales revenue currency. However, if a large loan is required, the available loan currencies may be limited. Structures that can be applied include Hedging, Swaps etc.

The Company may mitigate the same by setting counter party limits and subject the overall foreign currency positions to an overnight open exchange position limit.

The Company's revenues are largely denominated in foreign currency, predominantly US\$, GBP and Euro. In addition to these currencies the Company also does business in Australian \$, Canadian \$, South African Rand and Swiss Franc among other currencies. Given the nature of the business a large proportion of the costs are denominated in Indian Rupees (INR). This exposes the Company to profit/loss on currency fluctuations. To mitigate this risk the Company follows a proactive hedging policy for all the above-mentioned currencies. Net exposure is calculated for each currency by deducting expected costs from revenues in that currency. The Company hedges this net currency exposure using foreign exchange forward and options contracts. The tenure of these contracts is up to one year.

Operating risk

The operating risk has interrelated components: Technical and Management. The ability to economically achieve the desired operating rate depends on the engineering, experience, and quality of staff applied to the project. This risk may arise from inadequate or failed internal processes, staff and procedures or from any other external events.

In the technical front, adoption of untried technology, non-competitive facilities, limited life of plant and machinery may give rise to risks. Operational risk is higher in the information technology related areas which may arise as a result of adoption of obsolete software, computer systems, failure of operational

and information security procedures, crash/breakdown of hardware, fraud, employee errors etc.

This risk may be mitigated by way of providing adequate employee training and regular upgradation of security procedures and systems.

The management component of this risk lies in the availability of sufficient and efficient trained workforce and their utilisation in the proper manner. Although India has large pool manpower, but recruitment of the requisite number of personnel at the right time or the right job may not be easy. The Company may seek an employment contract or "key-man" insurance to ensure the continued involvement of the company and of strategic individuals. A management agreement may be needed to cover this risk component. Besides high skills and a proven track record, Company may seek comfort Labour Contracts, Training Agreements.

Market risk

Market Risk may occur when there is a fall in the sales price or there is a drop in the market share which may be due to shift in freight rates or due to a new entry by a lower-cost competitor; reduction or cessation of the product in the market or changes in the market variables such as the interest rates, foreign exchange rates, equity prices etc. The Company may enter into contracts with the merchants/ suppliers for maintenance of price and regular upgradation of procedures and improvement of quality of products to retain share in the market.

Environmental risk

This risk category can also arise due to location of the project e.g. near towns or highway or in proximity to wilderness, heritage, native reserve, or scenic areas.

An environment impact assessment done on a regular basis by professionals shall aid the company in adopting adequate procedures for tackling this risk.

Competition risk

This is likely to have an adverse influence on the Company's market share and profitability. Markets in which the Company operates are witnessing penetration by small players trying to consolidate their position and establish their presence through aggressive pricing. The ability of competitors to swiftly replicate the Company's superior practices often diminishes its competitive advantage. Entry of globally established multinational corporations into the country has made available multiple options for the customers, often at a better bargain, thereby causing an intense pressure on margin. The Company is relentlessly trying to guard its competitive edge through access to superior technology, forging alliance with global players of repute while bidding for large project orders, superior cost management and setting foot in new emerging markets.

Appendix IX
(Refer para 4.16)

**FORMAT FOR SECURING INFORMATION FROM MEMBERS OF
SENIOR MANAGEMENT FOR DISCLOSURE TO THE BOARD
ABOUT MATERIAL FINANCIAL AND
COMMERCIAL TRANSACTIONS**

To,

The Board of Directors

_____ Ltd.

Dear Sirs,

I give below the information relating to all material financial and commercial transactions wherein I have personal interest that may have potential conflict with the interest of the Company.

<i>S. No.</i>	<i>Nature of financial/ commercial transaction</i>	<i>Date of transaction</i>	<i>Amount involved (Rs.)</i>	<i>Name of the party with whom the transaction has been entered into</i>
1				
2				
3				

Appendix X*(Refer para 7.4)***CORPORATE GOVERNANCE COMPLIANCE CERTIFICATE**

Registration No. of the Company.....

Nominal Capital.....

To

The Members

.....Ltd.**

.....

I/We* have examined all relevant records of Limited (the Company) for the purpose of certifying compliance of the conditions of Corporate Governance under Clause 49 of the Listing Agreement with Stock Exchange/s for the financial year ended I/We* have obtained all the information and explanations which to the best of my/our* knowledge and belief were necessary for the purposes of certification.

The compliance of the conditions of Corporate Governance is the responsibility of the management. My/Our* examination was limited to the procedure and implementation thereof. This certificate is neither an assurance as to the future viability of the Company nor of the efficacy or effectiveness with which the management has conducted the affairs of the Company.

On the basis of my/our* examination of the records produced, explanations and information furnished, I/we* certify that the Company** has complied with

(a) all the mandatory conditions of Clause 49 of the Listing Agreement.

or

(a) all the mandatory conditions of Clause 49 of the Listing Agreement except the following

.....

.....

(if there are adverse comments or qualifications, this part of the certificate should be suitably modified).

(b) the following non-mandatory requirements of Clause 49:

.....

.....

.....

or

- (b) the following non-mandatory requirements of Clause 49 are not complied with by the Company.

.....

.....

.....

- (c) the Company has adopted the Corporate Governance Voluntary Guidelines, 2009 issued by the Ministry of Corporate Affairs fully.:

or

- (c) the Company has adopted the Corporate Governance Voluntary Guidelines, 2009 issued by the Ministry of Corporate Affairs to the extent mentioned in the Annexure

- (d) in respect of Voluntary Guidelines not adopted by the Company the Directors have informed the Shareholders of such fact along with reasons therefor.

Signature

Date :

Place :

[.....Name.....]

Practising Company Secretary

Membership No.....

Certificate of Practice No....

* Retain whichever is applicable.

** If the entity is not a Company under the Companies Act, 1956, the entity may be referred to appropriately (e.g. public/private sector banks, financial institutions, insurance companies, etc.).

Appendix XI

SEBI/CFD/DIL/CG/1/2004/12/10

October 29, 2004

**THE MANAGING DIRECTOR/EXECUTIVE DIRECTOR/
ADMINISTRATOR OF ALL THE STOCK EXCHANGES**

Dear Sir/Madam,

Sub. : Corporate Governance in listed Companies – Clause 49 of the Listing Agreement

1. All Stock Exchanges are hereby directed to amend the Listing Agreement by replacing the existing Clause 49 of the listing agreement (issued vide Circulars dated 21st February, 2000, 9th March 2000, 12th September 2000, 22nd January, 2001, 16th March 2001 and 31st December 2001) with the revised Clause 49 given in Annexure I through I D to this circular. SEBI Circular no. SEBI/MRD/SE/31/2003/26/08 dated August 26, 2003 (which has been since deferred) is hereby withdrawn. The revised Clause 49 also specifies the reporting requirements for a Company.
2. Please note that this is a master circular which supersedes all other earlier circulars issued by SEBI on Clause 49 of the Listing Agreement.
3. The provisions of the revised Clause 49 shall be implemented as per the schedule of implementation given below:
 - (a) For entities seeking listing for the first time, at the time of seeking in-principle approval for such listing.
 - (b) For existing listed entities which were required to comply with Clause 49 which is being revised i.e. those having a paid up share capital of Rs. 3 crores and above or net worth of Rs. 25 crores or more at any time in the history of the Company, by April 1, 2005.

Companies complying with the provisions of the existing Clause 49 at present (issued vide circulars dated 21st February, 2000, 9th March 2000, 12th September 2000, 22nd January, 2001 16th March 2001 and 31st December 2001) shall continue to do so till the revised Clause 49 of the Listing Agreement is complied with or till March 31, 2005, whichever is earlier.
4. The companies which are required to comply with the requirements of the revised Clause 49 shall submit a quarterly compliance report to the stock exchanges as per sub Clause VI(ii), of the revised Clause 49, within 15 days from the end of every quarter. The first such report would be submitted for the quarter ending June 30, 2005. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the Company.
5. The revised Clause 49 shall apply to all the listed companies, in accordance with the schedule of implementation given above.

However, for other listed entities which are not companies, but body corporate (e.g. private and public sector banks, financial institutions, insurance companies etc.) incorporated under other statutes, the revised Clause 49 will apply to the extent that it does not violate their respective statutes and guidelines or directives issued by the relevant regulatory authorities. The revised Clause 49 is not applicable to Mutual Funds.

6. The Stock Exchanges shall ensure that all provisions of the revised Clause 49 have been complied with by a Company seeking listing for the first time, before granting the in-principle approval for such listing. For this purpose, it will be considered satisfactory compliance if such a Company has set up its Board and constituted committees such as Audit Committee, Shareholders/ Investors Grievances Committee etc. in accordance with the revised clause before seeking in-principle approval for listing.
7. The Stock Exchanges shall set up a separate monitoring cell with identified personnel to monitor the compliance with the provisions of the revised Clause 49 on Corporate Governance. The cell, after receiving the quarterly compliance reports from the companies which are required to comply with the requirements of the revised Clause 49, shall submit a consolidated compliance report to SEBI within 60 days from the end of each quarter.

Yours faithfully,

Parag Basu

Encl.: Annexure I, IA, IB, IC and ID

CLAUSE 49 - CORPORATE GOVERNANCE

The company agrees to comply with the following provisions:

I. Board of Directors**(A) Composition of Board**

- (i) The Board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.
- (ii) Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director, at least half of the Board should comprise of independent directors.
- (iii) For the purpose of the sub-clause (ii), the expression 'independent director' shall mean a non-executive director of the company who:
 - (a) apart from receiving director's remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director;
 - (b) is not related to promoters or persons occupying management positions at the board level or at one level below the board;
 - (c) has not been an executive of the company in the immediately preceding three financial years;
 - (d) is not a partner or an executive or was not partner or an executive during the preceding three years, of any of the following:
 - (i) the statutory audit firm or the internal audit firm that is associated with the company, and
 - (ii) the legal firm(s) and consulting firm(s) that have a material association with the company.
 - (e) is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the director; and
 - (f) is not a substantial shareholder of the company i.e. owning two percent or more of the block of voting shares.

Explanation

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

- (a) Associate shall mean a company which is an "associate" as defined in Accounting Standard (AS) 23, "Accounting

for Investments in Associates in Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

- (b) "Senior management" shall mean personnel of the company who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of management one level below the executive directors, including all functional heads.
 - (c) "Relative" shall mean "relative" as defined in Section 2(41) and Section 6 read with Schedule IA of the Companies Act, 1956.
- (iv) Nominee directors appointed by an institution which has invested in or lent to the company shall be deemed to be independent directors.

Explanation:

"Institution" for this purpose means a public financial institution as defined in Section 4A of the Companies Act, 1956 or a "corresponding new bank" as defined in Section 2(d) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 [both Acts]."

(B) Non executive directors' compensation and disclosures

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

(C) Other provisions as to Board and Committees

- (i) The board shall meet at least four times a year, with a maximum time gap of three months between any two meetings. The minimum information to be made available to the board is given in Annexure–IA.
- (ii) A director shall 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. Furthermore it 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.

Explanation:

1. For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether

listed or not, shall be included and all other companies including private limited companies, foreign companies and companies under Section 25 of the Companies Act shall be excluded.

2. For the purpose of reckoning the limit under this sub-clause, Chairmanship/membership of the Audit Committee and the Shareholders' Grievance Committee alone shall be considered.
- (iii) The Board shall periodically review compliance reports of all laws applicable to the company, prepared by the company as well as steps taken by the company to rectify instances of non-compliances.

(D) Code of Conduct

- (i) The Board shall lay down a code of conduct for all Board members and senior management of the company. The code of conduct shall be posted on the website of the company.
- (ii) All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the company shall contain a declaration to this effect signed by the CEO.

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

II. Audit Committee

(A) Qualified and Independent Audit Committee

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

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

Explanation 1 : The term "financially literate" means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation 2 : A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication,

including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

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

(B) Meeting of Audit Committee

The audit committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.

(C) Powers of Audit Committee

The audit committee shall have powers, which should include the following:

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

(D) Role of Audit Committee

The role of the audit committee shall include the following:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.

4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
 - (a) Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of Section 217 of the Companies Act, 1956.
 - (b) Changes, if any, in accounting policies and practices and reasons for the same.
 - (c) Major accounting entries involving estimates based on the exercise of judgment by management.
 - (d) Significant adjustments made in the financial statements arising out of audit findings e. Compliance with listing and other legal requirements relating to financial statements.
 - (f) Disclosure of any related party transactions.
 - (g) Qualifications in the draft audit report.
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval.
6. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
8. Discussion with internal auditors any significant findings and follow up there on.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
12. To review the functioning of the Whistle Blower mechanism, in case the same is existing.
13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Explanation (i) : The term "related party transactions" shall have the same meaning as contained in the Accounting Standard 18, Related

Party Transactions, issued by The Institute of Chartered Accountants of India.

Explanation (ii) : If the company has set up an audit committee pursuant to provision of the Companies Act, the said audit committee shall have such additional functions / features as is contained in this clause.

(E) Review of information by Audit Committee

The Audit Committee shall mandatorily review the following information:

1. Management discussion and analysis of financial condition and results of operations;
2. Statement of significant related party transactions (as defined by the audit committee), submitted by management;
3. Management letters / letters of internal control weaknesses issued by the statutory auditors;
4. Internal audit reports relating to internal control weaknesses; and
5. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.

III. Subsidiary Companies

- (i) At least one independent director on the Board of Directors of the holding company shall be a director on the Board of Directors of a material non listed Indian subsidiary company.
- (ii) The Audit Committee of the listed holding company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company.
- (iii) The minutes of the Board meetings of the unlisted subsidiary company shall be placed at the Board meeting of the listed holding company. The management should periodically bring to the attention of the Board of Directors of the listed holding company, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary company.

Explanation 1: The term "material non-listed Indian subsidiary" shall mean an unlisted subsidiary, incorporated in India, whose turnover or net worth (i.e. paid up capital and free reserves) exceeds 20% of the consolidated turnover or net worth respectively, of the listed holding company and its subsidiaries in the immediately preceding accounting year.

Explanation 2: The term "significant transaction or arrangement" shall mean any individual transaction or arrangement that exceeds or is likely to exceed 10% of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the material unlisted subsidiary for the immediately preceding accounting year.

Explanation 3: Where a listed holding company has a listed subsidiary which is itself a holding company, the above provisions shall apply to the listed subsidiary insofar as its subsidiaries are concerned.

IV. Disclosures

(A) Basis of related party transactions

- (i) A statement in summary form of transactions with related parties in the ordinary course of business shall be placed periodically before the audit committee.
- (ii) Details of material individual transactions with related parties which are not in the normal course of business shall be placed before the audit committee.
- (iii) Details of material individual transactions with related parties or others, which are not on an arm's length basis should be placed before the audit committee, together with Management's justification for the same.

(B) Disclosure of Accounting Treatment

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

(C) Board Disclosures – Risk management

The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

(D) Proceeds from public issues, rights issues, preferential issues etc.

When money is raised through an issue (public issues, rights issues, preferential issues etc.), it shall disclose to the Audit Committee, the uses / applications of funds by major category (capital expenditure, sales and marketing, working capital, etc), on a quarterly basis as a part of their quarterly declaration of financial results. Further, on an annual basis, the company shall prepare a statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and place it before the audit committee. Such disclosure shall be made only till such time that the full money raised through the issue has been fully spent. This statement shall be certified by the statutory auditors of the company. The audit committee shall make appropriate recommendations to the Board to take up steps in this matter.

(E) Remuneration of Directors

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

(F) Management

- (i) As part of the directors' report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company's competitive position:
 - (i) Industry structure and developments.
 - (ii) Opportunities and Threats.
 - (iii) Segment-wise or product-wise performance.
 - (iv) Outlook.
 - (v) Risks and concerns.

- (vi) Internal control systems and their adequacy.
 - (vii) Discussion on financial performance with respect to operational performance.
 - (viii) Material developments in Human Resources / Industrial Relations front, including number of people employed.
- (ii) Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (for e.g. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)

Explanation : For this purpose, the term "senior management" shall mean personnel of the company who are members of its. core management team excluding the Board of Directors).

This would also include all members of management one level below the executive directors including all functional heads.

(G) Shareholders

- (i) In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:
 - (a) A brief resume of the director;
 - (b) Nature of his expertise in specific functional areas;
 - (c) Names of companies in which the person also holds the directorship and the membership of Committees of the Board; and
 - (d) Shareholding of non-executive directors as stated in Clause 49(IV)(E)(v) above.
- (ii) Quarterly results and presentations made by the company to analysts shall be put on company's web-site, or shall be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own web-site.
- (iii) A Board Committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. This Committee shall be designated as 'Shareholders/Investors Grievance Committee'.
- (iv) To expedite the process of share transfers, the Board of the company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority shall attend to share transfer formalities at least once in a fortnight.

V. CEO/CFO certification

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

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

VI. Report on Corporate Governance

- (i) There shall be a separate section on Corporate Governance in the Annual Reports of company, with a detailed compliance report on Corporate Governance. Non-compliance of any mandatory requirement of this clause with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted. The suggested list of items to be included in this report is given in Annexure-IC and list of non-mandatory requirements is given in Annexure-ID.

- (ii) The companies shall submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the format given in Annexure IB. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the company

VII. Compliance

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

Annexure IA**INFORMATION TO BE PLACED BEFORE BOARD OF DIRECTORS**

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

Annexure IB**FORMAT OF QUARTERLY COMPLIANCE
REPORT ON CORPORATE GOVERNANCE****Name of the Company:****Quarter ending on:**

<i>Particulars</i>	<i>Clause of Listing Agreement</i>	<i>Compliance Status Yes/No</i>	<i>Remarks</i>
I. Board of Directors	49I		
(A) Composition of Board	49(IA)		
(B) Non-executive directors compensation and disclosures	49(IB)		
(C) Other provisions as to Board and Committees	49(IC)		
(D) Code of conduct	49(ID)		
II. Audit Committee	49(II)		
(A) Qualified and Independent Audit Committee	49(IIA)		
(B) Meeting of Audit Committee	49(IIB)		
(C) Powers of Audit Committee	49(IIC)		
(D) Role of Audit Committee	49(IID)		
(E) Review of information by Audit Committee	49(IIE)		
III. Subsidiary Companies	49(III)		
IV. Disclosures	49(IV)		
(A) Basis of related party transactions	49(IVA)		
(B) Board disclosures	49(IVB)		
(C) Proceeds from Public issues, rights issues, preferential issues etc.	49(IVC)		
(D) Remuneration of directors	49(IVD)		
(E) Management	49(IVE)		
(F) Shareholders	49(IVF)		
V. CEO/CFO Certification	49(V)		
VI. Report on Corporate Governance	49(VI)		
VII. Compliance	49(VII)		

Note:

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

Annexure IC**SUGGESTED LIST OF ITEMS TO BE INCLUDED IN THE REPORT
ON CORPORATE GOVERNANCE IN THE
ANNUAL REPORT OF COMPANIES**

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

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

7. Disclosures

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

8. Means of communication

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

9. General Shareholder information

- (i) AGM : Date, time and venue
- (ii) Financial year
- (iii) Date of Book closure
- (iv) Dividend Payment Date
- (v) Listing on Stock Exchanges
- (vi) Stock Code
- (vii) Market Price Data: High, Low during each month in last financial year
- (viii) Performance in comparison to broad-based indices such as BSE Sensex, CRISIL index etc.

- (ix) Registrar and Transfer Agents
- (x) Share Transfer System
- (xi) Distribution of shareholding
- (xii) Dematerialization of shares and liquidity
- (xiii) Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity
- (xiv) Plant Locations
- (xv) Address for correspondence.

NON-MANDATORY REQUIREMENTS**(1) The Board**

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

Independent Directors may have a tenure not exceeding, in the aggregate, a period of nine years, on the Board of a company.

(2) Remuneration Committee

(i) The board may 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.

(ii) To avoid conflicts of interest, the remuneration committee, which would determine the remuneration packages of the executive directors may comprise of at least three directors, all of whom should be non-executive directors, the Chairman of committee being an independent director.

(iii) All the members of the remuneration committee could be present at the meeting.

(iv) The Chairman of the remuneration committee could be present at the Annual General Meeting, to answer the shareholder queries. However, it would be up to the Chairman to decide who should answer the queries.

(3) Shareholder Rights

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

(4) Audit qualifications

Company may move towards a regime of unqualified financial statements.

(5) Training of Board Members

A Company may train its Board members in the business model of the Company as well as the risk profile of the business parameters of the Company, their responsibilities as directors, and the best ways to discharge them.

(6) Mechanism for evaluating non-executive Board Members

The performance evaluation of non-executive directors could be done by a peer group comprising the entire Board of Directors, excluding the

director being evaluated; and Peer Group evaluation could be the mechanism to determine whether to extend / continue the terms of appointment of non-executive directors.

(7) Whistle Blower Policy

The Company may establish a mechanism for employees to report to the management concerns about unethical behaviour, actual or suspected fraud or violation of the Company's code of conduct or ethics policy. This mechanism could also provide for adequate safeguards against victimization of employees who avail of the mechanism and also provide for direct access to the Chairman of the Audit committee in exceptional cases. Once established, the existence of the mechanism may be appropriately communicated within the organization.

Appendix XII

SEBI/CFD/DIL/CG/1/2005/29/3

March 29, 2005

Amarjeet Singh

General Manager

Division of Issues & Listing

Corporation Finance Department

Phone: +91 22 2285 0451-56, (Extn: 226)

Fax : +91 22 2204 5633. Email: amarjeets@sebi.gov.in

**THE MANAGING DIRECTOR/EXECUTIVE DIRECTOR/
ADMINISTRATOR OF ALL THE STOCK EXCHANGES**

Dear Sir/Madam,

Sub. : Corporate Governance – Clause 49 of the Listing Agreement

Please refer to SEBI Circular no. SEBI/CFD/DIL/CG/1/2004/12/10 dated October 29, 2004 containing the revised provisions of Clause 49 of the listing agreement.

It has been brought to our notice that a large number of companies are still not in a state of preparedness to be fully compliant with the requirements as contained in the aforesaid circular. As it is our wont that all listed companies and companies desirous of getting listed should achieve best corporate governance status, it was felt that more time should be allowed to them to conform to Clause 49 of the listing agreement as revised in terms of the aforesaid circular. Accordingly, the date for ensuring compliance with the revised Clause 49 of the listing agreement has been now extended upto December 31, 2005.

Yours faithfully,

Amarjeet Singh

Appendix XIII**SEBI/CFD/DIL/CG/1/2006/13/1**

January 13, 2006

**THE MANAGING DIRECTOR/EXECUTIVE DIRECTOR/
ADMINISTRATOR OF ALL THE STOCK EXCHANGES**

Dear Sir/Madam,

**Sub : Corporate Governance in listed Companies –
Clause 49 of the Listing Agreement**

SEBI, vide Circular SEBI/CFD/DIL/CG/1/2004/12/10 dated October 29, 2004, issued the revised Clause 49 of the listing agreement, which was to come into effect by April 1, 2005. Since it was brought to SEBI's notice that a large number of companies were still not in a state of preparedness to be fully compliant with the requirements as contained in the revised clause 49, SEBI extended the date for ensuring compliance with the revised Clause 49 of the listing agreement upto December 31, 2005 vide Circular no. SEBI/CFD/DIL/CG/1/2005/29/3 dated March 29, 2005. The revised clause 49 thus has come into effect from January 1, 2006.

SEBI has been in receipt of a number of requests/suggestions to bring about clarifications on certain provisions of the revised Clause 49. After examining the same, it has been decided to make the following changes to certain provisions of the revised clause 49:

- The maximum time gap between two Board meetings has been increased from three months to four months.
- Sitting fees paid to non-executive directors as authorized by the Companies Act, 1956 would not require the previous approval of shareholders.
- Certification of internal controls and internal control systems by CEO/CFO would be for the purpose for financial reporting.

In view of the above, certain changes have to be incorporated in the revised Clause 49, details of which are placed in Annexure I.

The Stock Exchanges are advised to accordingly amend the listing agreement with immediate effect.

Yours faithfully,

Parag Basu

Annexure I

Clause 49 of the Listing Agreement shall be amended as follows –

1. After sub-clause (I)(B), the following proviso shall be inserted, namely–

“Provided that the requirement of obtaining prior approval of shareholders in general meeting shall not apply to payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 1956 for payment of sitting fees without approval of the Central Government.”
2. In sub-clause (I)(C), for the words “three months” occurring in the first sentence, the words “four months” shall be substituted;
3. Sub-clause (V)(c) shall be substituted with the following, namely –

“(c) They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.”
4. Sub-clause (V)(d) shall be substituted with the following, namely –

“(d) They have indicated to the auditors and the Audit committee

 - (a) significant changes in internal control over financial reporting during the year;
 - (b) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - (c) instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company’s internal control system over financial reporting.”

SEBI/CFD/DIL/LA/4/2007/27/12

December 27, 2007

**THE MANAGING DIRECTOR / EXECUTIVE DIRECTOR /
ADMINISTRATORS OF ALL STOCK EXCHANGES**

Dear Sirs,

Sub. : Amendments to Equity Listing Agreement

- 1.0 In order to bring more transparency in the governance of a listed company with regard to utilisation of issue proceeds and to enhance availability of and accessibility to the continuing disclosures by listed companies, it has been decided to amend Equity Listing Agreement to provide for the following:
 - 2.0 Monitoring of utilisation of Issue Proceeds
 - 2.1 As per SEBI (Disclosure and Investor Protector) (DIP) Guidelines, 2000, every issuer company making a public or rights issue of more than Rs. 500 crores is required to appoint an agency to monitor the utilisation of issue proceeds. SEBI has, vide circular dated November 29, 2007 amending the SEBI (DIP) Guidelines, mandated that a monitoring agency shall henceforth be required to file its report with the issuer company instead of with SEBI.
 - 2.2 Presently, Clause 49 of Equity Listing Agreement requires the Audit Committee of an issuer company to monitor the utilisation of issue proceeds and to make appropriate recommendations to the Board of the issuer company. It is therefore felt that even where a monitoring agency has been appointed, the report submitted by such agency may be placed before the Audit Committee of the issuer company, so as to enable the Audit Committee to make appropriate recommendations to the Board of the issuer company. Accordingly, it has been decided to amend Clause 49 of Equity Listing Agreement, requiring the issuer company to place the monitoring report filed with it before its Audit Committee.
 - 2.3 Further, every issuer company shall be required to inform material deviations in the utilisation of issue proceeds to the stock exchange and shall also be required to simultaneously make the material deviations / adverse comments of the Audit committee / monitoring agency public through advertisement in newspapers.
 - 3.0 Electronic filing through Corporate Filing and Dissemination System (CFDS), viz., www.corpfiling.co.in
 - 3.1 SEBI had, vide circular no. SMD/POLICY/Cir-13/02 dated June 20, 2002, introduced a clause in Equity Listing Agreement, which inter alia mandated electronic filing of certain corporate information through the Electronic Data Information Filing and Retrieval (EDIFAR) system hosted by the National Informatics Centre on behalf of SEBI.

It has been decided to phase out EDIFAR gradually in view of a new portal, viz., CFDS put in place jointly by BSE and NSE at the URL www.corpfiling.co.in. CFDS offers a XBRL enabled common platform for listed companies to file their returns with stock exchanges and also a common place for investors to view information related to listed companies.

- 3.2 Accordingly, it has been decided to introduce a new clause viz., Clause 52 in Equity Listing Agreement, requiring listed companies to file information with the stock exchange only through CFDS. Over period, other modes of sending public information to stock Exchanges for compliance with clauses of Equity Listing Agreement shall be dispensed with. The companies, which are mandated to file information through CFDS or have been registered on CFDS on their own volition though not so mandated, need not file information through the EDIFAR system. The companies which have commenced filing through CFDS shall continue to do so through CFDS only.
- 3.3 BSE and NSE (Participating Stock Exchanges), which jointly own and maintain CFDS, shall, in a phased manner, ensure that CFDS is made available to all listed companies for their corporate filings, irrespective of the stock exchange on which the companies are listed. Participating Stock Exchanges shall shortlist companies, based on market capitalization and disseminate and publish the said list from time to time and make it available on the website of the Exchanges as well as on CFDS at the URL www.corpfiling.co.in.
- 4.0 Accordingly, new Clauses 43A and 52 shall be inserted in Equity Listing Agreement and existing Clauses 49 and 51 of Equity Listing Agreement shall be amended as detailed in the Annexure I.
- 5.0 All stock exchanges are advised to
 - 5.1 Give effect to the above mentioned policy amendments and appropriately amend the relevant clauses of Equity Listing Agreement in line with the text of the amendments specified in Annexure I.
 - 5.2 Make consequential changes in other clauses of Equity Listing Agreement.
 - 5.3 Communicate to SEBI the status of implementation of the requirements of this circular in the next Monthly Development Report.
- 6.0 Applicability

All Stock Exchanges shall ensure that:

 - 6.1 Clause 52 shall be applicable to all those companies whose names shall be specified by the Participating Stock Exchanges from time to time. The first 100 companies identified by the Participating Stock Exchanges, a list of which is available on the websites of the

Participating Stock Exchanges, shall make all their submissions through CFDS from the period starting from January 1, 2008. Initially, these companies shall be required to make their submissions to the respective stock exchanges through CFDS, in addition to the modes provided in Equity Listing Agreement, i.e., through fax/courier, etc.

6.2 Users are requested to give their feedback on the CFDS at cfdfeedback@nse.co.in and corp.relations@bseindia.com so as to improve the efficiency and effectiveness of the portal.

6.3 All other amendments to Equity Listing Agreement shall come into force with effect from the date of amendment.

7.0 This circular is issued in exercise of powers conferred by Sub-section (1) of Section 11, read with Sub-section (2) of Section 11A, of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

8.0 This circular is available on SEBI website at www.sebi.gov.in under the categories "Legal Framework" and "Issues and Listing".

Yours faithfully

Neelam Bhardwaj

Encl.: Annexure I

Annexure I

1. After Clause 43, the following clause shall be inserted, namely:-
 - "43A. Statement of deviations in use of issue proceeds
 - (1) The company agrees to furnish to the stock exchange on a quarterly basis, a statement indicating material deviations, if any, in the use of proceeds of a public or rights issue from the objects stated in the offer document.
 - (2) Where the company has appointed a monitoring agency to monitor utilisation of proceeds of a public or rights issue and such monitoring agency has pointed out any deviation in the use of the proceeds of the issue from the objects stated in the offer document or has given any other reservations about the end use of funds, the company agrees to intimate the same to the stock exchange, without any delay.
 - (3) The information mentioned in sub-clause (1) shall be furnished to the stock exchange along with the interim or annual financial results submitted under Clause 41 and shall be published in the newspapers simultaneously with the interim or annual financial results, after placing it before the Audit Committee in terms of Clause 49.
 - (4) The information mentioned in sub-clause (2) shall, after review by the Audit Committee, be furnished to the stock exchange as and when received and shall simultaneously be published in the newspapers."
2. In clause 49 –
 - (a) in sub-clause (II)(D), after item (5), the following new item shall be inserted, namely:-

"5A. Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter."
 - (b) in sub-clause (IV)(D), after the words "statutory auditors of the company" and before the words "The audit committee shall make appropriate recommendations," the following shall be inserted, namely:-

"Furthermore, where the company has appointed a monitoring agency to monitor the utilisation of proceeds of a public or rights issue, it shall place before the Audit Committee the monitoring report of such agency, upon receipt, without any delay."
3. In Clause 51, after sub-clause (3), the following sub-clause shall be inserted, namely:-

"(4) Notwithstanding anything in sub-clauses (1), (2) and (3), the company need not file on the EDIFAR website, any information, statement or

report which has already been filed on the Corporate Filing and Dissemination System in pursuance of Clause 52."

4. After Clause 51, the following clause shall be inserted, namely:-

"52. Corporate Filing and Dissemination System (CFDS), viz., www.corpfiling.co.in

(1) The company agrees -

- (a) to file on the CDFS, such information, statements and reports as may be specified by the Participating Stock Exchanges in this regard.
- (b) that the Compliance Officer, appointed under Clause 47(a) and the company shall be responsible for ensuring the correctness, authenticity and comprehensiveness of the information, statements and reports filed under this clause and also for ensuring that such information is in conformity with the applicable laws and the listing agreement."
- (c) to ensure that the electronic filing of information through CFDS, pursuant to compliance with any clause of the listing agreement, shall be done within the time limit specified in the respective clause of the listing agreement.
- (d) to put in place such infrastructure as may be required to comply with the clause.

Explanation : For the purposes of this clause –

- (i) The term "Corporate Filing and Dissemination System (CFDS)" shall mean the portal at the URL www.corpfiling.co.in or such other website as may be specified by the participating stock exchanges from time to time to take care of exigencies, if any.
- (ii) The term "Participating Stock Exchanges" shall mean the stock exchanges owning and maintaining CFDS."

SEBI/CFD/DIL/CG/1/2008/08/04

April 08, 2008

**THE MANAGING DIRECTOR/EXECUTIVE DIRECTOR/
ADMINISTRATOR OF ALL THE STOCK EXCHANGES**

Dear Sir/Madam,

**Sub. : Corporate Governance in listed Companies –
Clause 49 of the Listing Agreement**

- I. SEBI, vide circular SEBI/CFD/DIL/CG/1/2004/12/10 dated October 29, 2004, issued the revised Clause 49 of the listing agreement, which has come into effect from January 1, 2006.

SEBI had received requests/suggestions to bring about clarifications on certain provisions of the clause. After examining the same, it has been decided to modify the existing Clause 49 by including the following provisions:

Mandatory provisions

1. If the non-executive Chairman is a promoter or is related to promoters or persons occupying management positions at the board level or at one level below the board, at least one-half of the board of the company should consist of independent directors.
2. Disclosures of relationships between directors inter-se shall be made in specified documents/filings.
3. The gap between resignation/removal of an independent director and appointment of another independent director in his place shall not exceed 180 days. However, this provision would not apply in case a company fulfils the minimum requirement of independent directors in its Board, i.e., one-third or one-half as the case may be, even without filling the vacancy created by such resignation/removal.
4. The minimum age for independent directors shall be 21 years.

Non-mandatory provisions

The company shall ensure that the person who is being appointed as an independent director has the requisite qualifications and experience which would be of use to the company and which, in the opinion of the company, would enable him to contribute effectively to the company in his capacity as an independent director.

In view of the above, certain changes have to be incorporated in Clause 49, details of which are placed in Annexure I.

- II. Advice to Stock Exchanges

1. All Stock Exchanges are advised to:
 - (a) Give effect to the abovementioned policies and appropriately amend Clause 49 of Equity Listing Agreement in line with the text of the amendments specified in Annexure I.

- (b) Make consequential changes, if any, in other clauses of Equity Listing Agreement.
- 2. All Stock Exchanges are further advised to communicate to SEBI, status of implementation of the requirements of this circular in the next Monthly Development Report.
- III. This circular is issued in exercise of powers conferred by Sub-section (1) of Section 11, read with Sub-section (2) of Section 11A, of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
- IV. This circular is available on the SEBI website at www.sebi.gov.in.

Yours faithfully,

Parag Basu

Annexure I

Clause 49 of the Listing Agreement shall be amended as follows –

1. In item (I),
 - (a) in para (A),
 - (i) after sub-clause (ii), the following proviso shall be inserted, namely:–

“Provided that where the non-executive Chairman is a promoter of the company or is related to any promoter or person occupying management positions at the Board level or at one level below the Board, at least one-half of the Board of the company shall consist of independent directors.”
 - (ii) in sub-clause (iii),
 - (A) in point (e), the word “and” occurring after “director;” shall be omitted;
 - (B) after point (f), the following shall be inserted, namely:-

“(g) is not less than 21 years of age.”
 - (b) in para (C), after sub-clause (iii), the following sub-clause shall be inserted, namely:-

“(iv) An independent director who resigns or is removed from the Board of the Company shall be replaced by a new independent director within a period of not more than 180 days from the day of such resignation or removal, as the case may be:

Provided that where the company fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director within the period of 180 days shall not apply.”
2. In item (IV), in para (G), after sub-clause (i), the following sub-clause shall be inserted, namely: –

“(ia) Disclosure of relationships between directors inter-se shall be made in the Annual Report, notice of appointment of a director, prospectus and letter of offer for issuances and any related filings made to the stock exchanges where the company is listed.”
3. In Annexure 1D under the heading “Non-Mandatory Requirements,” for item no. 1, the following shall be substituted, namely:-

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

Independent Directors may have a tenure not exceeding, in the aggregate, a period of nine years, on the Board of a company. The company may ensure that the person who is being appointed as an independent director has the requisite qualifications and experience which would be of use to the company and which, in the opinion of the company, would enable him to contribute effectively to the company in his capacity as an independent director."

SEBI/CFD/DIL/CG/2/2008/23/10

October 23, 2008

**THE MANAGING DIRECTOR/EXECUTIVE DIRECTOR/
ADMINISTRATOR OF ALL THE STOCK EXCHANGES**

Dear Sir/Madam,

**Sub. : Corporate Governance in listed Companies –
Clause 49 of the Listing Agreement**

- I. SEBI vide Circular SEBI/CFD/DIL/CG/1/2008/08/04 dated April 08, 2008 amended Clause 49 of the Equity Listing Agreement *inter-alia* including a provision stating that if the non-executive Chairman is a promoter or is related to promoters or persons occupying management positions at the board level or at one level below the board, at least one-half of the board of the company should consist of independent directors.

SEBI had received queries requesting to bring about further clarity on the said amendment where the promoter of a listed company is a listed or unlisted entity. After examining the same, it has been decided to include the following explanation to the existing Clause 49.

In Item I, Para (A), in sub-clause (ii), after the proviso, the following Explanation shall be inserted, namely :-

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

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

II. Applicability

The aforesaid amendments in Clause 49 of Equity Listing Agreement shall be implemented as per the schedule of implementation given below:

- (a) For entities seeking listing for the first time, at the time of seeking in-principle approval for such listing;
- (b) For existing listed entities which are required to comply with Clause 49, before March 31, 2009.

III. Advice to Stock Exchanges:

1. All Stock Exchanges are advised to:
- (a) Give effect to the abovementioned policies and appropriately amend Clause 49 of Equity Listing Agreement in line with the text of the amendments specified above.

- (b) Make consequential changes, if any, in other clauses of Equity Listing Agreement.
- 2. All Stock Exchanges are further advised to communicate to SEBI, status of implementation of the requirements of this circular in their quarterly report for the quarter ended March 31, 2009.
- III. This circular is issued in exercise of powers conferred by Sub-section (1) of Section 11, read with Sub-section (2) of Section 11A, of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
- IV. This circular is available on the SEBI website at www.sebi.gov.in.

Yours faithfully,

Parag Basu

CIR/CFD/DIL/1/2010

April 05, 2010

To

All Stock Exchanges

Dear Sir/Madam,

**Sub. : Listing Conditions-Amendments to the
Equity Listing Agreement**

1. As part of a review of the extant policies of disclosure requirements for listed entities and also to bring more transparency and efficiency in the governance of listed entities it has been decided to specify certain listing conditions so to amend the Equity Listing Agreement.
2. The full text of amendments to be effected in the Equity Listing Agreement is given at Annexure and the brief of the said listing conditions are as under:-
 - (a) *Requirement of auditors' certificate for accounting treatment under schemes of arrangement- Amendment to Clause 24*
 - (i) It has been observed that in some of the recent schemes of amalgamation/merger/reconstruction, etc. (schemes) of certain listed entities submitted to the Hon'ble High Court for approval, there are included details of the accounting treatment to be given to various items in the process of amalgamation/merger/reconstruction etc. If this accounting treatment is not in accordance with the accounting standards specified under Section 211(3C) of the Companies Act, 1956, the resultant financial statements of the entity concerned will not be in conformity with the accounting standards.
 - (ii) In view of the above, it has been decided that while submitting the scheme of amalgamation/merger/reconstruction, etc. (schemes) to the stock exchanges under clause 24(f) of the Equity Listing Agreement, the listed entities shall also submit to the concerned stock exchange, an auditors' certificate to the effect that the accounting treatment contained in such schemes is in compliance with all the applicable Accounting Standards.
 - (b) *Timelines for submission and publication of financial results by listed entities- Amendment to Clause 41(I)(c), (d)(e) and 41(VI)(b)*
 - (i) With a view to streamline the submission of financial results by listed entities by making it uniform and to reduce the timeline for submission of the same to the stock exchanges, it has been decided that listed entities shall disclose, on standalone or consolidated basis, their quarterly (audited or un-audited with limited review), financial results within 45 days of the end of every quarter.

- (ii) Also, audited annual results on stand-alone as well as consolidated basis, shall be disclosed within 60 days from the end of the financial year for those entities which opt to submit their annual audited results in lieu of the last quarter unaudited financial results with limited review.
 - (iii) With regard to publication of consolidated financial results alone, the following, viz., (a) Turnover (b) Profit before tax and (c) Profit after tax on a stand-alone basis shall also be published.
- (c) *Voluntary adoption of International Financial Reporting Standards (IFRS) by listed entities having subsidiaries - Insertion of Clause 41(l)(g)*
- (i) Various regulatory authorities are working on arriving at a roadmap for implementation of IFRS in India and on the steps to be taken for convergence of the Indian Accounting Standards with IFRS by April 01, 2011.
 - (ii) In order to familiarize listed entities with the IFRS requirements within the aforesaid timeline, it has been decided to provide an option for listed entities having subsidiaries to submit their consolidated financial results either in accordance with the accounting standards specified in Section 211(3C) of the Companies Act, 1956, or in accordance with IFRS.
 - (iii) Where the figures for the current period are as per IFRS and the figures for the corresponding previous period are as per the notified Accounting Standards, a reconciliation shall be provided in respect of significant differences between the figures as disclosed as per IFRS and the figures as they would have been if the notified Accounting Standards were adopted.
 - (iv) Submission of stand-alone financial results to the stock exchanges shall continue to be in accordance with the Indian GAAP.
- (d) *Requirement of a valid peer review certificate for statutory auditors- Insertion of Clause 41(1)(h)*
- (i) The Institute of Chartered Accountants of India (ICAI/ Institute) has specified a peer review mechanism to ensure that the quality of services rendered by the members of the Institute is maintained and enhanced on a continuous basis. Firms of chartered accountants (proprietary as well as partnership) and members of the Institute practising individually are required to undergo the peer review process.
 - (ii) It has been decided that in respect of all listed entities, limited review/statutory audit reports submitted to the concerned stock exchanges shall be given only by those auditors who have subjected themselves to the peer review process of ICAI and who hold a valid certificate issued by the 'Peer Review Board' of the said Institute.

(e) *Interim disclosure of Balance Sheet items by listed entities- Insertion of Clause 41(V)(h) and Annexure IX*

- (i) Presently, shareholders have access to the statement of assets and liabilities of the listed entity and its solvency position only on an annual basis. In the wake of the recent global financial crisis, the issue of solvency has come to the forefront from the shareholders' perspective.
- (ii) With a view to have more frequent disclosure of the asset-liability position of entities, it has been decided that listed entities shall disclose within forty-five days from the end of the half-year, as a note to their half-yearly financial results, a statement of assets and liabilities in the specified format.

(f) *Modification in formats of limited review report and statutory auditor's report -Amendment to Annexures V, VI, VII and VIII to Clause 41*

- (i) Clause 41 of the Listing Agreement provides for periodical disclosure of financial results by listed entities. Annexures V, VI, VII and VIII to the said Clause provides, inter-alia, the formats for submission of limited review reports by the statutory auditors and the formats for reports by the statutory auditors wherein an unqualified opinion on the financial results is expressed.

The aforesaid formats are hereby modified to make it clear that disclosures pertaining to details of public shareholding and promoters' shareholding, including details of pledged/encumbered shares of promoters/promoter group, contained in the format have been traced from disclosures made by the management.

(g) *Approval of appointment of 'CFO' by the Audit Committee- Insertion of Clause 49(II)(D)(12A)*

In order to ensure that the CFO has adequate accounting and financial management expertise to review and certify the financial statements as required under Clause 49 of the Listing Agreement, it has been decided that the appointment of the CFO is approved by the Audit Committee before finalization of the same by the management. The Audit Committee, while approving the appointment, shall assess the qualifications, experience and background etc. of the candidate.

3. The above listing conditions are specified in exercise of the powers conferred under Section 11 read with Section 11A of the Securities and Exchange Board of India Act, 1992. The said listing conditions should form part of the existing Listing Agreement of the stock exchange. A text of amendments in the Listing Agreement is enclosed as Annexure.

4. Applicability

- (i) The provisions of para 2(a) above shall be applicable to all schemes of arrangement / amalgamation / merger / reconstruction / reduction

of capital of listed entities that are being filed before the Hon'ble Courts/Tribunals on or after the date of this circular.

- (ii) The provisions of paras 2 (b), (c), (e) and (g) shall be applicable with immediate effect.
 - (iii) The provisions of para 2(d) above shall be applicable to all financial statements submitted by listed entities to the stock exchanges after appointment of auditors for accounting periods commencing on or after April 01, 2010.
5. All stock exchanges are advised to ensure compliance with this circular and carry out the amendments in their Listing Agreement as per the Annexure to this circular.
 6. This circular is available on SEBI website at www.sebi.gov.in under the categories "Legal Framework" and "Issues and Listing".

Yours faithfully,

Sunil Kadam

General Manager
+91-22-26449630
sunilk@sebi.gov.in

Encl: as above

Annexure**AMENDMENTS TO LISTING AGREEMENT**

1. In Clause 24 of the Equity Listing Agreement, after sub-clause (h), the following subclause shall be inserted,-

“(i) The company agrees that, while filing for approval any draft Scheme of amalgamation / merger / reconstruction, etc. with the stock exchange under sub-clause (f), it shall also file an auditors’ certificate to the effect that the accounting treatment contained in the scheme is in compliance with all the Accounting Standards specified by the Central Government in Section 211(3C) of the Companies Act, 1956.

Provided that in case of companies where the respective sectoral regulatory authorities have prescribed norms for accounting treatment of items in the financial statements contained in the scheme, the requirements of the regulatory authorities shall prevail.

Explanation : For this purpose, mere disclosure of deviations in accounting treatments as provided in para 42 of AS-14 shall not be deemed as compliance with the above”.

2. In clause 41,
- (i) in sub-clause (l), (a) in item (c); for the words “one month” and for the words “two months,” wherever they appear the words “forty-five days” shall be substituted;
 - (b) in item (d), for the words “one month”, “two months”, wherever they appear, the words “forty-five days” and for the words “three months,” wherever they appear, the words “sixty days” shall be substituted;
 - (c) in item (e)(i), for the words “one month” and for words “two months”, wherever they appear, the words “forty-five days” shall be substituted;
 - (d) in item (e)(ii), after the words “to the stock exchange” the words “within sixty days from the end of the financial year” shall be inserted;
 - (e) after item (e), the following item shall be inserted:-
 - “(ea) As a part of its audited or unaudited financial results for the half year, the company shall also submit by way of a note, a statement of assets and liabilities as at the end of the half-year.*
 - (eaa) However, when a company opts to submit un-audited financial results for the last quarter of the financial year, it shall, submit a statement of assets and liabilities as at the end of the financial year only along with the audited financial results for the entire financial year, as soon as they are approved by the Board.*

- (f) after item (f), the following items shall be inserted, namely:-
- “(g) In case the company has subsidiaries and it opts to submit consolidated financial results as mentioned at (e) above, it may submit the consolidated financials as per the International Financial Reporting Standards (IFRS) notified by the International Accounting Standards Board.*
- “(h) The company shall ensure that the limited review/audit reports submitted to the stock exchanges on a quarterly/annual basis shall be given only by an auditor who has subjected himself to the peer review process of Institute of Chartered Accountants of India (ICAI) and holds a valid certificate issued by the Peer Review Board of the ICAI.”*
- (ii) in sub-clause (V), after item (g), the following item shall be inserted, namely:-
- “(h) Disclosure of Balance Sheet items as per items (ea) shall be in the format specified in Annexure IX drawn from Schedule VI of the Companies Act, or its equivalent formats in other statutes, as applicable.”*
- (iii) in sub-clause (VI), in item (b), for the words “only consolidated financial results”, the words “consolidated financial results alongwith the following items on a stand-alone basis, as a foot note:-
- (a) Turnover;
- (b) Profit before tax (c) Profit after tax”, shall be substituted;
- (iv) in sub-clause (VI) item (b), after para (iii), the following sub-para (iv) shall be inserted, namely:-
- “(iv) Companies that are required to prepare consolidated financial results for the first time at the end of a financial year shall exercise the option mentioned at (b) above in respect of the quarter during the financial year in which they first acquire the subsidiary.”*
- (v) in Annexure V, after the words “for the period ended.....” the words “except for the disclosures regarding ‘Public Shareholding’ and ‘Promoter and Promoter Group Shareholding’ which have been traced from disclosures made by the management and have not been audited by us” shall be inserted;
- (vi) in Annexure VI, after the words “for the period ended.....” the words “except for the disclosures regarding ‘Public Shareholding’ and ‘Promoter and Promoter Group Shareholding’ which have been traced from disclosures made by the management and have not been audited by us” shall be inserted;
- (vii) in Annexure VII (both parts), after the words “pursuant to the requirement of clause 41 of the Listing Agreement” the words “except for the disclosures regarding ‘Public Shareholding’ and ‘Promoter and Promoter Group Shareholding’ which have been traced from disclosures made by the management and have not been audited by us” shall be inserted;

(viii) in Annexure VIII(both parts), after the words “pursuant to the requirement of clause 41 of the Listing Agreement” the words “except for the disclosures regarding ‘Public Shareholding’ and ‘Promoter and Promoter Group Shareholding’ which have been traced from disclosures made by the management and have not been audited by us” shall be inserted;

(ix) after Annexure VIII, the following Annexure shall be inserted:-

“Annexure IX”

(Rs. in lakhs)

<i>Particulars</i>	<i>6 months ended (dd/mm/yyyy)</i>	<i>Corresponding 6 months ended in the previous year (dd/mm/yyyy)</i>
	<i>Audited/ Unaudited</i>	<i>Audited/ Unaudited</i>
SHAREHOLDERS' FUNDS:		
(a) Capital		
(b) Reserves and Surplus		
LOAN FUNDS		
INVESTMENTS		
CURRENT ASSETS, LOANS AND ADVANCES		
(a) Inventories		
(b) Sundry Debtors		
(c) Cash and Bank Balance		
(d) Other current assets		
(f) Loans and advances		
<i>Less : Current liabilities and provisions</i>		
(a) Liabilities		
(b) Provisions		
Miscellaneous Expenditure (not written off or adjusted)		
Profit and Loss Account		
TOTAL		

3. In Clause 49, sub-clause II, para D, after item 12, the following shall be inserted:-

“12A. Approval of appointment of CFO (i.e., the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience & background, etc. of the candidate.”

Appendix XIV**CLAUSE 49 OF LISTING AGREEMENT AS AMENDED
TILL APRIL 29, 2010**

The company agrees to comply with the following provisions:

I. Board of Directors**(A) Composition of Board**

- (i) The Board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.
- (ii) Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director, at least half of the Board should comprise of independent directors.

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

Explanation - For the purpose of the expression "related to any promoter" referred to in sub-clause (ii):

- (a) If the promoter is a listed entity, its directors other than the independent directors, its employees or its nominees shall be deemed to be related to it;
 - (b) If the promoter is an unlisted entity, its directors, its employees or its nominees shall be deemed to be related to it."
- (iii) For the purpose of the sub-clause (ii), the expression 'independent director' shall mean a non-executive director of the company who:
 - (a) apart from receiving director's remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director;
 - (b) is not related to promoters or persons occupying management positions at the board level or at one level below the board;
 - (c) has not been an executive of the company in the immediately preceding three financial years;
 - (d) is not a partner or an executive or was not partner or an executive during the preceding three years, of any of the following:
 - (i) the statutory audit firm or the internal audit firm that is associated with the company, and

- (ii) the legal firm(s) and consulting firm(s) that have a material association with the company.
- (e) is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the director;
- (f) is not a substantial shareholder of the company i.e. owning two percent or more of the block of voting shares.
- (g) is not less than 21 years of age

Explanation

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

- (a) Associate shall mean a company which is an "associate" as defined in Accounting Standard (AS) 23, "Accounting for Investments in Associates in Consolidated Financial Statements", issued by the Institute of Chartered Accountants of India.
- (b) "Senior management" shall mean personnel of the company who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of management one level below the executive directors, including all functional heads.
- (c) "Relative" shall mean "relative" as defined in Section 2(41) and Section 6 read with Schedule IA of the Companies Act, 1956.
- (d) Nominee directors appointed by an institution which has invested in or lent to the company shall be deemed to be independent directors.

Explanation

"Institution" for this purpose means a public financial institution as defined in Section 4A of the Companies Act, 1956 or a "corresponding new bank" as defined in Section 2(d) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 [both Acts]."

(B) Non executive directors' compensation and disclosures

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

Provided that the requirement of obtaining prior approval of shareholders in general meeting shall not apply to payment of sitting fees to non-

executive directors, if made within the limits prescribed under the Companies Act, 1956 for payment of sitting fees without approval of the Central Government.

(C) Other provisions as to Board and Committees

- (i) The board shall meet at least four times a year, with a maximum time gap of four months between any two meetings. The minimum information to be made available to the board is given in *Annexure– IA*.
- (ii) A director shall 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. Furthermore it 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.

Explanation:

1. For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies and companies under Section 25 of the Companies Act shall be excluded.
 2. For the purpose of reckoning the limit under this sub-clause, Chairmanship/membership of the Audit Committee and the Shareholders' Grievance Committee alone shall be considered.
- (iii) The Board shall periodically review compliance reports of all laws applicable to the company, prepared by the company as well as steps taken by the company to rectify instances of non-compliances.
 - (iv) An independent director who resigns or is removed from the Board of the Company shall be replaced by a new independent director within a period of not more than 180 days from the day of such resignation or removal, as the case may be:

Provided that where the company fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director within the period of 180 days shall not apply

(D) Code of Conduct

- (i) The Board shall lay down a code of conduct for all Board members and senior management of the company. The code of conduct shall be posted on the website of the company.
- (ii) All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of

the company shall contain a declaration to this effect signed by the CEO.

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

II. Audit Committee

(A) Qualified and Independent Audit Committee

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

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

Explanation 1 : The term "financially literate" means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation 2 : A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

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

(B) Meeting of Audit Committee

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

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

(C) Powers of Audit Committee

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

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

(D) Role of Audit Committee

The role of the Audit Committee shall include the following:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
 - (a) Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of Section 217 of the Companies Act, 1956.
 - (b) Changes, if any, in accounting policies and practices and reasons for the same.
 - (c) Major accounting entries involving estimates based on the exercise of judgment by management.
 - (d) Significant adjustments made in the financial statements arising out of audit findings.
 - (e) Compliance with listing and other legal requirements relating to financial statements.
 - (f) Disclosure of any related party transactions.
 - (g) Qualifications in the draft audit report.

5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval.
- 5A. Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.
6. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
8. Discussion with internal auditors any significant findings and follow up there on.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
12. To review the functioning of the Whistle Blower mechanism, in case the same is existing.
- 12A. Approval of appointment of CFO (i.e., the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience and background, etc. of the candidate.
13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Explanation (i) : The term "related party transactions" shall have the same meaning as contained in the Accounting Standard 18, Related Party Transactions, issued by The Institute of Chartered Accountants of India.

Explanation (ii) : If the company has set up an Audit Committee pursuant to provision of the Companies Act, the said Audit

Committee shall have such additional functions / features as is contained in this clause.

(E) Review of information by Audit Committee

The Audit Committee shall mandatorily review the following information:

1. Management discussion and analysis of financial condition and results of operations;
2. Statement of significant related party transactions (as defined by the audit committee), submitted by management;
3. Management letters / letters of internal control weaknesses issued by the statutory auditors;
4. Internal audit reports relating to internal control weaknesses; and
5. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.

III. Subsidiary Companies

- (i) At least one independent director on the Board of Directors of the holding company shall be a director on the Board of Directors of a material non listed Indian subsidiary company.
- (ii) The Audit Committee of the listed holding company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company.
- (iii) The minutes of the Board meetings of the unlisted subsidiary company shall be placed at the Board meeting of the listed holding company. The management should periodically bring to the attention of the Board of Directors of the listed holding company, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary company.

Explanation 1: The term "material non-listed Indian subsidiary" shall mean an unlisted subsidiary, incorporated in India, whose turnover or net worth (i.e. paid up capital and free reserves) exceeds 20% of the consolidated turnover or net worth respectively, of the listed holding company and its subsidiaries in the immediately preceding accounting year.

Explanation 2: The term "significant transaction or arrangement" shall mean any individual transaction or arrangement that exceeds or is likely to exceed 10% of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the material unlisted subsidiary for the immediately preceding accounting year.

Explanation 3: Where a listed holding company has a listed subsidiary which is itself a holding company, the above provisions shall apply to the listed subsidiary insofar as its subsidiaries are concerned.

IV. Disclosures**(A) Basis of related party transactions**

- (i) A statement in summary form of transactions with related parties in the ordinary course of business shall be placed periodically before the audit committee.
- (ii) Details of material individual transactions with related parties which are not in the normal course of business shall be placed before the audit committee.
- (iii) Details of material individual transactions with related parties or others, which are not on an arm's length basis should be placed before the audit committee, together with Management's justification for the same.

(B) Disclosure of Accounting Treatment

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

(C) Board Disclosures – Risk management

The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

(D) Proceeds from public issues, rights issues, preferential issues etc.

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

(E) Remuneration of Directors

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

(F) Management

- (i) As part of the directors' report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company's competitive position:
 - 1. Industry structure and developments.
 - 2. Opportunities and Threats.
 - 3. Segment-wise or product-wise performance.
 - 4. Outlook.
 - 5. Risks and concerns.

6. Internal control systems and their adequacy.
 7. Discussion on financial performance with respect to operational performance.
 8. Material developments in Human Resources / Industrial Relations front, including number of people employed.
- (ii) Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (for e.g. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)

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

(G) Shareholders

- (i) In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:
 - (a) A brief resume of the director;
 - (b) Nature of his expertise in specific functional areas;
 - (c) Names of companies in which the person also holds the directorship and the membership of Committees of the Board; and
 - (d) Shareholding of non-executive directors as stated in Clause 49(IV)(E)(v) above.
- (ia) Disclosure of relationships between directors inter-se shall be made in the Annual Report, notice of appointment of a director, prospectus and letter of offer for issuances and any related filings made to the stock exchanges where the company is listed.
- (ii) Quarterly results and presentations made by the company to analysts shall be put on company's web-site, or shall be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own web-site.
- (iii) A Board Committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. This Committee shall be designated as 'Shareholders/Investors Grievance Committee'.

- (iv) To expedite the process of share transfers, the Board of the company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority shall attend to share transfer formalities at least once in a fortnight.

V. CEO/CFO certification

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

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

VI. Report on Corporate Governance

- (i) There shall be a separate section on Corporate Governance in the Annual Reports of company, with a detailed compliance report on Corporate Governance. Non-compliance of any mandatory

requirement of this clause with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted. The suggested list of items to be included in this report is given in *Annexure IC* and list of non-mandatory requirements is given in *Annexure ID*.

- (ii) The companies shall submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the format given in *Annexure IB*. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the company

VII. Compliance

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

Annexure IA**INFORMATION TO BE PLACED BEFORE BOARD OF DIRECTORS**

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

Annexure IB**FORMAT OF QUARTERLY COMPLIANCE REPORT ON
CORPORATE GOVERNANCE****Name of the Company:****Quarter ending on:**

<i>Particulars</i>	<i>Clause of Listing Agreement</i>	<i>Compliance Status Yes/No</i>	<i>Remarks</i>
I. Board of Directors	49I		
(A) Composition of Board	49(IA)		
(B) Non-executive directors compensation & disclosures	49(IB)		
(C) Other provisions as to Board and Committees	49(IC)		
(D) Code of Conduct	49(ID)		
II. Audit Committee	49(II)		
(A) Qualified and Independent Audit Committee	49(IIA)		
(B) Meeting of Audit Committee	49(IIB)		
(C) Powers of Audit Committee	49(IIC)		
(D) Role of Audit Committee	49(II(D)		
(E) Review of Information by Audit Committee	49(II(E)		
III. Subsidiary Companies	49(III)		
IV. Disclosures	49(IV)		
(A) Basis of related party transactions	49(IVA)		
(B) Disclosure of Accounting Treatment	49(IVB)		

<i>Particulars</i>	<i>Clause of Listing Agreement</i>	<i>Compliance Status Yes/No</i>	<i>Remarks</i>
(C) Board Disclosures	49(IVC)		
(D) Proceeds from public issues, rights issues, preferential issues etc.	49(IVD)		
(E) Remuneration of Directors	49(IVE)		
(F) Management	49(IVF)		
(G) Shareholders	49(IVG)		
V. CEO/CFO Certification	49(V)		
VI. Report on Corporate Governance	49(VI)		
VII. Compliance	49(VII)		

Note:

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

Annexure IC**SUGGESTED LIST OF ITEMS TO BE INCLUDED IN THE REPORT
ON CORPORATE GOVERNANCE IN THE
ANNUAL REPORT OF COMPANIES**

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

- (iv) Person who conducted the postal ballot exercise
 - (v) Whether any special resolution is proposed to be conducted through postal ballot
 - (vi) Procedure for postal ballot.
7. Disclosures:
- (i) Disclosures on materially significant related party transactions that may have potential conflict with the interests of company at large
 - (ii) Details of non-compliance by the company, penalties, strictures imposed on the company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years
 - (iii) Whistle Blower policy and affirmation that no personnel has been denied access to the audit committee
 - (iv) Details of compliance with mandatory requirements and adoption of the nonmandatory requirements of this clause.
8. Means of communication:
- (i) Quarterly results
 - (ii) Newspapers wherein results normally published
 - (iii) Any website, where displayed
 - (iv) Whether it also displays official news releases; and
 - (v) The presentations made to institutional investors or to the analysts.
9. General Shareholder information:
- (i) AGM : Date, time and venue
 - (ii) Financial year
 - (iii) Date of Book closure
 - (iv) Dividend Payment Date
 - (v) Listing on Stock Exchanges
 - (vi) Stock Code
 - (vii) Market Price Data: High, Low during each month in last financial year
 - (viii) Performance in comparison to broad-based indices such as BSE Sensex, CRISIL index etc.
 - (ix) Registrar and Transfer Agents
 - (x) Share Transfer System
 - (xi) Distribution of shareholding
 - (xii) Dematerialization of shares and liquidity
 - (xiii) Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity
 - (xiv) Plant Locations
 - (xv) Address for correspondence.

NON-MANDATORY REQUIREMENTS**1. The Board**

The Board - A non-executive Chairman may be entitled to maintain a Chairman's office at the company's expense and also allowed reimbursement of expenses incurred in performance of his duties. Independent Directors may have a tenure not exceeding, in the aggregate, a period of nine years, on the Board of a company. The company may ensure that the person who is being appointed as an independent director has the requisite qualifications and experience which would be of use to the company and which, in the opinion of the company, would enable him to contribute effectively to the company in his capacity as an independent director."

2. Remuneration Committee

- (i) The board may 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.
- (ii) To avoid conflicts of interest, the remuneration committee, which would determine the remuneration packages of the executive directors may comprise of at least three directors, all of whom should be non-executive directors, the Chairman of committee being an independent director.
- (iii) All the members of the remuneration committee could be present at the meeting.
- (iv) The Chairman of the remuneration committee could be present at the Annual General Meeting, to answer the shareholder queries. However, it would be up to the Chairman to decide who should answer the queries.

3. Shareholder Rights

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

4. Audit qualifications

Company may move towards a regime of unqualified financial statements.

5. Training of Board Members

A company may train its Board members in the business model of the company as well as the risk profile of the business parameters of the company, their responsibilities as directors, and the best ways to discharge them.

6. Mechanism for evaluating non-executive Board Members

The performance evaluation of non-executive directors could be done by a peer group comprising the entire Board of Directors, excluding the director being evaluated; and Peer Group evaluation could be the mechanism to determine whether to extend/continue the terms of appointment of non-executive directors.

7. Whistle Blower Policy

The company may establish a mechanism for employees to report to the management concerns about unethical behaviour, actual or suspected fraud or violation of the company's code of conduct or ethics policy. This mechanism could also provide for adequate safeguards against victimization of employees who avail of the mechanism and also provide for direct access to the Chairman of the Audit committee in exceptional cases. Once established, the existence of the mechanism may be appropriately communicated within the organization.

Ministry of Corporate Affairs**CORPORATE GOVERNANCE VOLUNTARY GUIDELINES, 2009****PREAMBLE**

Good corporate governance practices enhance companies' value and stakeholders' trust resulting into robust development of capital market, the economy and also help in the evolution of a vibrant and constructive shareholders' activism. The Ministry of Corporate Affairs has examined committee reports as well as suggestions received from various stakeholders on issues related to corporate governance. Keeping in mind that the subject of corporate governance may go well beyond the Law and that there are inherent limitations in enforcing many aspects of corporate governance through legislative or regulatory means, it has been considered necessary that a set of voluntary guidelines called "Corporate Governance -Voluntary Guidelines 2009" which are relevant in the present context, are prepared and disseminated for consideration and adoption by corporates.

These guidelines provide for a set of good practices which may be voluntarily adopted by the Public companies. Private companies, particularly the bigger ones, may also like to adopt these guidelines. The guidelines are not intended to be a substitute for or addition to the existing laws but are recommendatory in nature.

While it is expected that more and more corporates should make sincere efforts to consider adoption of the guidelines, there may be genuine reasons for some companies in not being able to do so completely. In such a case it is expected that such companies should inform their shareholders about the reasons for not adopting these guidelines either fully or partially. It is hoped that "India Inc" would respond to these guidelines with keen interest. It is also hoped that by following good governance practices, the Indian corporate sector would be in a better position to enhance not only the economic value of enterprise but also the value for every stakeholder who has contributed in the success of the enterprise, and while doing so, it would be setting the global benchmarks for good corporate governance.

After taking into account the experience of voluntary adoption of these guidelines by the corporates and consideration of relevant feedback, the Government would initiate the exercise for review of these guidelines for further improvement after one year.

GUIDELINES**I. BOARD OF DIRECTORS****A. APPOINTMENT OF DIRECTORS****A.1 Appointments to the Board**

- (ii) Companies should issue formal letters of appointment to Non-Executive Directors (NEDs) and Independent Directors - as is done

by them while appointing employees and Executive Directors. The letter should specify:

- The term of the appointment;
 - The expectation of the Board from the appointed director; the Board-level committee(s) in which the director is expected to serve and its tasks;
 - The fiduciary duties that come with such an appointment alongwith accompanying liabilities;
 - Provision for Directors and Officers (D&O) insurance, if any;
 - The Code of Business Ethics that the company expects its directors and employees to follow;
 - The list of actions that a director should not do while functioning as such in the company; and
 - The remuneration, including sitting fees and stock options etc, if any.
- (iii) Such formal letter should form a part of the disclosure to shareholders at the time of the ratification of his/her appointment or re-appointment to the Board. This letter should also be placed by the company on its website, if any, and in case the company is a listed company, also on the website of the stock exchange where the securities of the company are listed.

A.2 Separation of offices of Chairman and Chief Executive Officer

To prevent unfettered decision making power with a single individual, there should be a clear demarcation of the roles and responsibilities of the Chairman of the Board and that of the Managing Director/Chief Executive Officer (CEO). The roles and offices of Chairman and CEO should be separated, as far as possible, to promote balance of power.

A.3 Nomination Committee

- (ii) The companies may have a Nomination Committee comprising of majority of Independent Directors, including its Chairman. This Committee should consider:
- proposals for searching, evaluating, and recommending appropriate Independent Directors and Non-Executive Directors [NEDs], based on an objective and transparent set of guidelines which should be disclosed and should, *inter-alia*, include the criteria for determining qualifications, positive attributes, independence of a director and availability of time with him or her to devote to the job;
 - determining processes for evaluating the skill, knowledge, experience and effectiveness of individual directors as well as the Board as a whole.

- (iii) With a view to enable Board to take proper and reasoned decisions, Nomination Committee should ensure that the Board comprises of a balanced combination of Executive Directors and Non-Executive Directors.
- (iv) The Nomination Committee should also evaluate and recommend the appointment of Executive Directors.
- (v) A separate section in the Annual Report should outline the guidelines being followed by the Nomination Committee and the role and work done by it during the year under consideration.

A.4. Number of Companies in which an Individual may become a Director

- (i) For reckoning the maximum limit of directorships, the following categories of companies should be included:
 - public limited companies,
 - private companies that are either holding or subsidiary companies of public companies.
- (ii) In case an individual is a Managing Director or Whole-time Director in a public company the maximum number of companies in which such an individual can serve as a Non-Executive Director or Independent Director should be restricted to seven.

B. INDEPENDENT DIRECTORS

B.1 Attributes for Independent Directors

- (iii) The Board should put in place a policy for specifying positive attributes of Independent Directors such as integrity, experience and expertise, foresight, managerial qualities and ability to read and understand financial statements. Disclosure about such policy should be made by the Board in its report to the shareholders. Such a policy may be subject to approval by shareholders.
- (iv) All Independent Directors should provide a detailed Certificate of Independence at the time of their appointment, and thereafter annually. This certificate should be placed by the company on its website, if any, and in case the company is a listed company, also on the website of the stock exchange where the securities of the company are listed.

B.2 Tenure for Independent Director

- (i) An Individual may not remain as an Independent Director in a company for more than six years.
- (ii) A period of three years should elapse before such an individual is inducted in the same company in any capacity.
- (iii) No individual may be allowed to have more than three tenures as Independent Director in the manner suggested in 'i' and 'ii' above.

- (iv) The maximum number of public companies in which an individual may serve as an Independent Director should be restricted to seven.

B.3 Independent Directors to have the Option and Freedom to meet Company Management periodically

- (i) In order to enable Independent Directors to perform their functions effectively, they should have the option and freedom to interact with the company management periodically.
- (ii) Independent Directors should be provided with adequate independent office space and other resources and support by the companies including the power to have access to additional information to enable them to study and analyze various information and data provided by the company management.

C. REMUNERATION OF DIRECTORS

C.1 Remuneration

C.1.1 Guiding Principles-Linking Corporate and Individual Performance

- (i) The companies should ensure that the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the company successfully. It should also be ensured that relationship of remuneration to performance is clear. Incentive schemes should be designed around appropriate performance benchmarks and provide rewards for materially improved company performance. Benchmarks for performance laid down by the company should be disclosed to the members annually.
- (ii) Remuneration Policy for the members of the Board and Key Executives should be clearly laid down and disclosed. Remuneration packages should involve a balance between fixed and incentive pay, reflecting short and long term performance objectives appropriate to the company's circumstances and goal.
- (iii) The performance-related elements of remuneration should form a significant proportion of the total remuneration package of Executive Directors and should be designed to align their interests with those of shareholders and to give these Directors keen incentives to perform at the highest levels.

C.1.2 Remuneration of Non-Executive Directors (NEDs)

- (i) The companies should have the option of giving a fixed contractual remuneration, not linked to profits, to NEDs. The companies should have the option to:
 - (c) Pay a fixed contractual remuneration to its NEDs, subject to an appropriate ceiling depending on the size of the company; or
 - (d) Pay upto an appropriate percent of the net profits of the company.

- (ii) The choice should be uniform for all NEDs, i.e. some should not be paid a commission on profits while others are paid a fixed amount.
- (iii) If the option chosen is 'i(a)' above, then the NEDs should not be eligible for any commission on profits.
- (iv) If stock options are granted as a form of payment to NEDs, then these should be held by the concerned director until three years of his exit from the Board.

C.1.3 Structure of Compensation to NEDs

- (i) The companies may use the following manner in structuring remuneration to NEDs:
 - *Fixed component*: This should be relatively low, so as to align NEDs to a greater share of variable pay. These should not be more than one-third of the total remuneration package.
 - *Variable component*: Based on attendance of Board and Committee meetings (at least 75% of all meetings should be an eligibility pre-condition).
 - *Additional variable payment(s)* for being :
 - the Chairman of the Board, especially if he/she is a non-executive chairman
 - the Chairman of the Audit Committee and/or other committees
 - members of Board committees.
- (ii) If such a structure (or any similar structure) of remuneration is adopted by the Board, it should be disclosed to the shareholders in the Annual Report of the company.

C.1.4 Remuneration of Independent Directors (IDs)

- (i) In order to attract, retain and motivate Independent Directors of quality to contribute to the company, they should be paid adequate sitting fees which may depend upon the twin criteria of Net Worth and Turnover of companies.
- (ii) The IDs may not be allowed to be paid stock options or profit based commissions, so that their independence is not compromised.

C.2 Remuneration Committee

- (i) Companies should have Remuneration Committee of the Board. This Committee should comprise of at least three members, majority of whom should be non executive directors with at least one being an Independent Director.
- (ii) This Committee should have responsibility for determining the

remuneration for all executive directors and the executive chairman, including any compensation payments, such as retirement benefits or stock options. It should be ensured that no director is involved in deciding his or her own remuneration.

- (iii) This Committee should also determine principles, criteria and the basis of remuneration policy of the company which should be disclosed to shareholders and their comments, if any, considered suitably. Whenever, there is any deviation from such policy, the justification/reasons should also be indicated/disclosed adequately.
- (iv) This Committee should also recommend and monitor the level and structure of pay for senior management, i.e. one level below the Board.
- (vi) This Committee should make available its terms of reference, its role, the authority delegated to it by the Board, and what it has done for the year under review to the shareholders in the Annual Report.

II. RESPONSIBILITIES OF THE BOARD

A. Training of Directors

- (i) The companies should ensure that directors are inducted through a suitable familiarization process covering, *inter-alia*, their roles, responsibilities and liabilities. Efforts should be made to ensure that every director has the ability to understand basic financial statements and information and related documents/papers. There should be a statement to this effect by the Board in the Annual Report.
- (ii) Besides this, the Board should also adopt suitable methods to enrich the skills of directors from time to time.

B. Enabling Quality Decision making

The Board should ensure that there are systems, procedures and resources available to ensure that every Director is supplied, in a timely manner, with precise and concise information in a form and of a quality appropriate to effectively enable/ discharge his duties. The Directors should be given substantial time to study the data and contribute effectively to Board discussions.

C. Risk Management

- (i) The Board, its Audit Committee and its executive management should collectively identify the risks impacting the company's business and document their process of risk identification, risk minimization, risk optimization as a part of a risk management policy or strategy.
- (ii) The Board should also affirm and disclose in its report to members that it has put in place critical risk management framework across the company, which is overseen once every six months by the Board.

The disclosure should also include a statement of those elements of risk, that the Board feels, may threaten the existence of the company.

D. Evaluation of Performance of Board of Directors, Committees thereof and of Individual Directors

The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The Board should state in the Annual Report how performance evaluation of the Board, its committees and its individual directors has been conducted.

E. Board to place Systems to ensure Compliance with Laws

- (i) In order to safeguard shareholders' investment and the company's assets, the Board should, at least annually, conduct a review of the effectiveness of the company's system of internal controls and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.
- (ii) The Directors' Responsibility Statement should also include a statement that proper systems are in place to ensure compliance of all laws applicable to the company. It should follow the "comply or explain" principle.
- (iii) For every agenda item at the Board meeting, there should be attached an "Impact Analysis on Minority Shareholders" proactively stating if the agenda item has any impact on the rights of minority shareholders. The Independent Directors should discuss such Impact Analysis and offer their comments which should be suitably recorded.

III. AUDIT COMMITTEE OF BOARD

A. Audit Committee – Constitution

The companies should have at least a three-member Audit Committee, with Independent Directors constituting the majority. The Chairman of such Committee should be an Independent Director. All the members of audit committee should have knowledge of financial management, audit or accounts.

B. Audit Committee – Enabling Powers:

- (i) The Audit Committee should have the power to -
 - have independent back office support and other resources from the company;
 - have access to information contained in the records of the company; and
 - obtain professional advice from external sources.

- (ii) The Audit Committee should also have the facility of separate discussions with both internal and external auditors as well as the management.

C. Audit Committee - Role and Responsibilities

- (i) The Audit Committee should have the responsibility to
 - monitor the integrity of the financial statements of the company;
 - review the company's internal financial controls, internal audit function and risk management systems;
 - make recommendations in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
 - review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process.
- (ii) The Audit Committee should also monitor and approve all Related Party Transactions including any modification/amendment in any such transaction.
- (iii) A statement in a prescribed/structured format giving details about all related party transactions taken place in a particular year should be included in the Board's report for that year for disclosure to various stake holders.

IV. AUDITORS

A. Appointment of Auditors

- (i) The Audit Committee of the Board should be the first point of reference regarding the appointment of auditors.
- (ii) The Audit Committee should have regard to the profile of the audit firm, qualifications and experience of audit partners, strengths and weaknesses, if any, of the audit firm and other related aspects.
- (iii) To discharge its duty, the Audit Committee should:
 - discuss the annual work programme and the depth and detailing of the audit plan to be undertaken by the auditor, with the auditor;
 - examine and review the documentation and the certificate for proof of independence of the audit firm, and
 - recommend to the Board, with reasons, either the appointment/re-appointment or removal of the statutory auditor, along with the annual audit remuneration.

B. Certificate of Independence

- (i) Every company should obtain a certificate from the auditor certifying his/its independence and arm's length relationship with the client company.
- (ii) The Certificate of Independence should certify that the auditor together with its consulting and specialized services affiliates, subsidiaries and associated companies or network or group entities has not/have not undertaken any prohibited non-audit assignments for the company and are independent vis-à-vis the client company.

C. Rotation of Audit Partners and Firms

- (i) In order to maintain independence of auditors with a view to look at an issue (financial or non-financial) from a different perspective and to carry out the audit exercise with a fresh outlook, the company may adopt a policy of rotation of auditors which may be as under:-
 - Audit partner - to be rotated once every three years
 - Audit firm - to be rotated once every five years.
- (ii) A cooling off period of three years should elapse before a partner can resume the same audit assignment. This period should be five years for the firm.

D. Need for clarity on information to be sought by auditor and/or provided by the company to him/it

- (i) With a view to ensure proper and accountable audit, there should be clarity between company management and auditors on the nature and amount of information/documents/ records etc and periodicity/frequency for supply/obtaining such information/documents/ records etc.
- (ii) In any case the auditor concerned should be under an obligation to certify whether he had obtained all the information he sought from the company or not. In the latter case, he should specifically indicate the effect of such non receipt of information on the financial statements.

E. Appointment of Internal Auditor

In order to ensure the independence and credibility of the internal audit process, the Board may appoint an internal auditor and such auditor, where appointed, should not be an employee of the company.

V SECRETARIAL AUDIT

Since the Board has the overarching responsibility of ensuring transparent, ethical and responsible governance of the company, it is important that the Board processes and compliance mechanisms of the company are robust. To ensure this, the companies may get the Secretarial Audit

conducted by a competent professional. The Board should give its comments on the Secretarial Audit in its report to the shareholders.

VI. INSTITUTION OF MECHANISM FOR WHISTLE BLOWING

- (i) The companies should ensure the institution of a mechanism for employees to report concerns about unethical behaviour, actual or suspected fraud, or violation of the company's code of conduct or ethics policy.
- (ii) The companies should also provide for adequate safeguards against victimization of employees who avail of the mechanism, and also allow direct access to the Chairperson of the Audit Committee in exceptional cases.

Appendix XVI**CIR/CFD/DIL/6/2010**

May 17, 2010

To All Stock Exchanges

Dear Sir/Madam,

Subject : Conditions of listing for issuers seeking listing on SME Exchange– Model SME Equity Listing Agreement

In recognition of the need for making finance available to small and medium enterprises, SEBI has decided to encourage promotion of dedicated exchanges and/or dedicated platforms of the exchanges for listing and trading of securities issued by Small and Medium Enterprises ("SME"). Consequently, SEBI amended SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 ("SEBI (ICDR) Regulations") by inserting a Chapter XA on "Issue of specified securities by small and medium enterprises", through notification dated April 13, 2010. In continuation of the same and to facilitate listing of specified securities in the SME exchange, "Model Equity Listing Agreement" to be executed between the issuer and the Stock Exchange, to list/migrate the specified securities on SME Exchange, is specified through this circular.

2. The full text of "Model Equity Listing Agreement – for SME Exchange" is given at Annexure A. This agreement shall be executed for listing of specified securities issued or migrated on SME exchange, in terms of Chapter XA of the SEBI (ICDR) Regulations.
3. Certain relaxations are provided to the issuers whose securities are listed on SME exchange in comparison to the listing requirements in Main Board, which *inter-alia* include the following:
 - a. Companies listed on the SME exchange may send to their shareholders, a statement containing the salient features of all the documents, as prescribed in sub-clause (iv) of clause (b) of proviso to Section 219 of the Companies Act, 1956, instead of sending a full Annual Report;
 - b. Periodical financial results may be submitted on "half yearly basis," instead of "quarterly basis" and
 - c. SMEs need not publish their financial results, as required in the Main Board and can make it available on their website.
4. The above listing conditions are specified in exercise of the powers conferred under Section 11 read with Section 11A of the Securities and Exchange Board of India Act, 1992.
5. The Model SME Equity Listing agreement specified in the Annexure A? shall come into force with immediate effect.

6. All Stock Exchanges are advised to:
- (i) execute the Listing Agreement with the issuing companies in line with the Model Listing agreement specified in the Annexure, without limiting or diluting any of the requirements thereof;
 - (ii) make necessary and consequential amendments, if any, to their bye-laws for the implementation of the above decision;
 - (iii) disseminate the same on their website for easy access to the Issuers and investors; and
 - (iv) communicate to SEBI, the status of the implementation of the provisions of this circular in the Monthly Development Report.
7. This circular is available on SEBI website at www.sebi.gov.in under the categories "Legal Framework" and "Issues and Listing".

Yours faithfully,

Sunil Kadam
General Manager
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sunilk@sebi.gov.in

Encl. : as above

CLAUSE 52 OF MODEL SME LISTING AGREEMENT**52. CORPORATE GOVERNANCE**

The Issuer agrees to comply with the following provisions:

I. BOARD OF DIRECTORS**(A) Composition of Board**

- (i) The Board of directors of the Issuer shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.
- (ii) Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director, at least half of the Board should comprise of independent directors.

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

Explanation : For the purpose of the expression "related to any promoter" referred to in sub-clause (ii):

- (a) If the promoter is a listed entity, its directors other than the independent directors, its employees or its nominees shall be deemed to be related to it;
 - (b) If the promoter is an unlisted entity, its directors, its employees or its nominees shall be deemed to be related to it."
- (iii) For the purpose of the sub-clause (ii), the expression "Independent Director" shall mean a non-executive director of the Issuer who:
 - (a) apart from receiving directors remuneration, does not have any material pecuniary relationships or transactions with the Issuer, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director;
 - (b) is not related to promoters or persons occupying management positions at the board level or at one level below the board;
 - (c) has not been an executive of the Issuer in the immediately preceding three financial years;
 - (d) is not a partner or an executive or was not partner or an executive during the preceding three years, of any of the following:
 - (i) the statutory audit firm or the internal audit firm that is associated with the Issuer, and

- (ii) the legal firm(s) and consulting firm(s) that have a material association with the Issuer.
- (e) is not a material supplier, service provider or customer or a lessor or lessee of the Issuer, which may affect independence of the director;
- (f) is not a substantial shareholder of the Issuer i.e. owning two percent or more of the block of voting shares;
- (g) is not less than 21 years of age.

Explanation : For the purposes of the sub-clause (iii):

- (a) Associate shall mean a Issuer which is an "associate" as defined in Accounting Standard (AS) 23, "Accounting for Investments in Associates in Consolidated Financial Statements," issued by the Institute of Chartered Accountants of India.
- (b) "Senior management" shall mean personnel of the Issuer who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of management one level below the executive directors, including all functional heads.
- (c) "Relative" shall mean "relative" as defined in Section 2(41) and Section 6 read with Schedule IA of the Companies Act, 1956.
- (d) Nominee directors appointed by an institution which has invested in or lent to the Issuer shall be deemed to be independent directors.

Explanation:

"Institution for this purpose means a public financial institution as defined in Section 4A of the Companies Act, 1956 or a "corresponding new bank" as defined in Section 2(d) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 [both Acts]."

(B) Non executive directors' compensation and disclosures

All fees/compensation, if any paid to non-executive directors, including independent directors, shall be fixed by the Board of Directors and shall require previous approval of shareholders in general meeting. The shareholders' resolution shall specify the limits for the maximum number of stock options that can be granted to non-executive directors, including independent directors, in any financial year and in aggregate. Provided that the requirement of obtaining prior approval of shareholders in general meeting shall not apply to payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 1956 for payment of sitting fees without approval of the Central Government.

(C) Other provisions as to Board and Committees

- (i) The board shall meet at least four times a year, with a maximum time gap of four months between any two meetings. The minimum

information to be made available to the board is given in Annexure IA.

- (ii) A director shall 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. Furthermore it should be a mandatory annual requirement for every director to inform the Issuer about the committee positions he occupies in other companies and notify changes as and when they take place.

Explanation:

1. For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies and companies under Section 25 of the Companies Act, 1956 shall be excluded.
 2. For the purpose of reckoning the limit under this sub-clause, Chairmanship/membership of the Audit Committee and the Shareholders' Grievance Committee alone shall be considered.
- (iii) The Board shall periodically review compliance reports of all laws applicable to the Issuer, prepared by the Issuer as well as steps taken by the Issuer to rectify instances of non-compliances.
 - (iv) An independent director who resign or is removed from the Board of the Issuer shall be replaced by a new independent director within a period of not more than 180 days from the day of such resignation or removal, as the case may be:
Provided that where the Issuer fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director within the period of 180 days shall not apply.

(D) Code of Conduct

- (i) The Board shall lay down a code of conduct for all Board members and senior management of the Issuer. The code of conduct shall be posted on the website of the Issuer.
- (ii) All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the Issuer shall contain a declaration to this effect signed by the CEO.

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

II. AUDIT COMMITTEE

(A) Qualified and Independent Audit Committee

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

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

Explanation 1 : The term “financially literate” means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation 2 : A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

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

(B) Meeting of Audit Committee

The audit committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.

(C) POWERS OF AUDIT COMMITTEE

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

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

(D) ROLE OF AUDIT COMMITTEE

The role of the Audit Committee shall include the following:

1. Oversight of the Issuer's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
 - (a) Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of Clause (2AA) of Section 217 of the Companies Act, 1956.
 - (b) Changes, if any, in accounting policies and practices and reasons for the same.
 - (c) Major accounting entries involving estimates based on the exercise of judgment by management.
 - (d) Significant adjustments made in the financial statements arising out of audit findings.
 - (e) Compliance with listing and other legal requirements relating to financial statements.
 - (f) Disclosure of any related party transactions.
 - (g) Qualifications in the draft audit report.
5. Reviewing, with the management, the half yearly financial statements before submission to the board for approval.
6. Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and the report

submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.

7. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
8. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
9. Discussion with internal auditors any significant findings and follow up there on.
10. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
11. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
12. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
13. To review the functioning of the Whistle Blower mechanism, in case the same is existing.
14. Approval of appointment of CFO (i.e., the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience & background, etc. of the candidate.
15. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Explanation (i) : The term "related party transactions" shall have the same meaning as contained in the Accounting Standard 18, Related Party Transactions, issued by The Institute of Chartered Accountants of India.

Explanation (ii) : If the Issuer has set up an audit committee pursuant to provision of the Companies Act, the said audit committee shall have such additional functions / features as is contained in this clause.

(E) Review of information by Audit Committee

The Audit Committee shall mandatorily review the following information:

1. Management discussion and analysis of financial condition and results of operations;

2. Statement of significant related party transactions (as defined by the audit committee), submitted by management;
3. Management letters / letters of internal control weaknesses issued by the statutory auditors;
4. Internal audit reports relating to internal control weaknesses; and
5. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.

III. SUBSIDIARY COMPANIES

- (i) At least one independent director on the Board of Directors of the holding company shall be a director on the Board of Directors of a material non listed Indian subsidiary company.
- (ii) The Audit Committee of the listed holding company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company.
- (iii) The minutes of the Board meetings of the unlisted subsidiary company shall be placed at the Board meeting of the listed holding company. The management should periodically bring to the attention of the Board of Directors of the listed holding company, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary company.

Explanation 1 : The term "material non-listed Indian subsidiary" shall mean an unlisted subsidiary, incorporated in India, whose turnover or net worth (i.e. paid up capital and free reserves) exceeds 20% of the consolidated turnover or net worth respectively, of the listed holding company and its subsidiaries in the immediately preceding accounting year.

Explanation 2 : The term "significant transaction or arrangement" shall mean any individual transaction or arrangement that exceeds or is likely to exceed 10% of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the material unlisted subsidiary for the immediately preceding accounting year.

Explanation 3 : Where a listed holding company has a listed subsidiary which is itself a holding company, the above provisions shall apply to the listed subsidiary insofar as its subsidiaries are concerned.

IV. DISCLOSURES

(A) Basis of related party transactions

- (i) A statement in summary form of transactions with related parties in the ordinary course of business shall be placed periodically before the audit committee.

- (ii) Details of material individual transactions with related parties which are not in the normal course of business shall be placed before the Audit Committee.
- (iii) Details of material individual transactions with related parties or others, which are not on an arm's length basis should be placed before the audit committee, together with Management's justification for the same.

(B) Disclosure of Accounting Treatment

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

(C) Board Disclosures – Risk management

The Issuer shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

(D) Proceeds from public issues, rights issues, preferential issues etc.

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

(E) Remuneration of Directors

- (i) All pecuniary relationship or transactions of the non-executive directors vis-à-vis the Issuer shall be disclosed in the Annual Report.
- (ii) Further the following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the Annual Report:

- (a) All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension etc.
 - (b) Details of fixed component and performance linked incentives, along with the performance criteria.
 - (c) Service contracts, notice period, severance fees.
 - (d) Stock option details, if any – and whether issued at a discount as well as the period over which accrued and over which exercisable.
- (iii) The Issuer shall publish its criteria of making payments to non-executive directors in its annual report. Alternatively, this may be put up on the Issuer's website and reference drawn thereto in the annual report.
- (iv) The Issuer shall disclose the number of shares and convertible instruments held by non-executive directors in the annual report.
- (v) Non-executive directors shall be required to disclose their shareholding (both own or held by / for other persons on a beneficial basis) in the listed Issuer in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director

(F) Management

- (i) As part of the directors report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders. This Management Discussion and Analysis should include discussion on the following matters within the limits set by the Issuer's competitive position:
1. Industry structure and developments
 2. Opportunities and Threats
 3. Segment-wise or product-wise performance
 4. Outlook
 5. Risks and concerns
 6. Internal control systems and their adequacy
 7. Discussion on financial performance with respect to operational performance
 8. Material developments in Human Resources / Industrial Relations front, including number of people employed.
- (ii) Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have

personal interest, that may have a potential conflict with the interest of the Issuer at large (for e.g. dealing in Issuer shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)

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

(G) Shareholders

- (i) In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:
 - (a) A brief resume of the director;
 - (b) Nature of his expertise in specific functional areas;
 - (c) Names of companies in which the person also holds the directorship and the membership of Committees of the Board; and
 - (d) Shareholding of non-executive directors as stated in Clause 52(IV)(E)(v) above
- (ii) Disclosure of relationships between directors *inter-se* shall be made in the Annual Report, notice of appointment of a director, prospectus and letter of offer for issuances and any related filings made to the stock exchanges where the Issuer is listed.
- (iii) Half yearly results and presentations made by the Issuer to analysts shall be put on Issuer's web-site, or shall be sent in such a form so as to enable the Stock Exchange on which the Issuer is listed to put it on its own web-site.
- (iv) A Board Committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. This Committee shall be designated as "Shareholders/Investors Grievance Committee."
- (v) To expedite the process of share transfers, the Board of the Issuer shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority shall attend to share transfer formalities at least once in a fortnight.

V. CEO/CFO CERTIFICATION

The CEO, i.e. the Managing Director or Manager appointed in terms of the Companies Act, 1956 and the CFO i.e. the whole-time Finance

Director or any other person heading the finance function discharging that function shall certify to the Board that:

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

VI. REPORT ON CORPORATE GOVERNANCE

- (i) There shall be a separate section on Corporate Governance in the Annual Reports of Issuer, with a detailed compliance report on Corporate Governance. Non-compliance of any mandatory requirement of this clause with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted. The suggested list of items to be included in this report is given in *Annexure IC* and list of non-mandatory requirements is given in *Annexure ID*.
- (ii) The companies shall submit a quarterly compliance report to the stock exchanges within 15 days from the close of each quarter as

per the format given in *Annexure IB*. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the Issuer.

VII. COMPLIANCE

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

Annexure IA**INFORMATION TO BE PLACED BEFORE BOARD OF DIRECTORS**

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

Annexure 1B**FORMAT OF QUARTERLY COMPLIANCE REPORT ON
CORPORATE GOVERNANCE***Name of the Issuer :**Quarter ending on :*

<i>Particulars</i>	<i>Clause of Listing Agreement</i>	<i>Compliance Status Yes/No</i>	<i>Remarks</i>
I. Board of Directors	52 1		
(A) Composition of Board	52 (IA)		
(B) Non-executive Directors' compensation and disclosures	52 (IB)		
(C) Other provisions as to Board and Committees	52 (IC)		
(D) Code of Conduct	52 (ID)		
II. Audit Committee	52 (II)		
(A) Qualified and Independent Audit Committee	52 (IIA)		
(B) Meeting of Audit Committee	52 (IIB)		
(C) Powers of Audit Committee	52 (IIC)		
(D) Role of Audit Committee	52 II(D)		
(E) Review of Information by Audit Committee	52 (IIE)		
III. Subsidiary Companies	52 (III)		
IV. Disclosures	52 (IV)		
(A) Basis of related party transactions	52 (IVA)		

<i>Particulars</i>	<i>Clause of Listing Agreement</i>	<i>Compliance Status Yes/No</i>	<i>Remarks</i>
(B) Disclosure of Accounting Treatment	52 (IVB)		
(C) Board Disclosures	52 (IVC)		
(D) Proceeds from public issues, rights issues, preferential issues etc.	52 (IVD)		
(E) Remuneration of Directors	52 (IVE)		
(F) Management	52 (IVF)		
(G) Shareholders	52 (IVG)		
V. CEO/CFO Certification	52 (V)		
VI. Report on Corporate Governance	52 (VI)		
VII. Compliance	52 (VII)		

Note:

- The details under each head shall be provided to incorporate all the information required as per the provisions of the Clause 52 of the Listing Agreement.
- In the column No. 3, compliance or non-compliance may be indicated by Yes/No/N.A.. For example, if the Board has been composed in accordance with the Clause 52 I of the Listing Agreement, "Yes" may be indicated. Similarly, in case the Issuer has no related party transactions, the words "N.A." may be indicated against 52 (IVA)
- In the remarks column, reasons for non-compliance may be indicated, for example, in case of requirement related to circulation of information to the shareholders, which would be done only in the AGM/EGM, it might be indicated in the "Remarks" column as – "will be complied with at the AGM". Similarly, in respect of matters which can be complied with only where the situation arises, for example, "Report on Corporate Governance" is to be a part of Annual Report only, the words "will be complied in the next Annual Report" may be indicated.

Annexure IC**SUGGESTED LIST OF ITEMS TO BE INCLUDED IN THE REPORT ON
CORPORATE GOVERNANCE IN THE
ANNUAL REPORT OF COMPANIES**

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

- (iv) Person who conducted the postal ballot exercise.
- (v) Whether any special resolution is proposed to be conducted through postal ballot.
- (vi) Procedure for postal ballot.

7. Disclosures:

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

8. *Means of communication.*

- (i) Half yearly results.
- (ii) Any website, where displayed.
- (iii) Whether it also displays official news releases; and
- (iv) The presentations made to institutional investors or to the analysts.

9. *General Shareholder information:*

- (i) AGM : Date, time and venue.
- (ii) Financial year.
- (iii) Date of Book closure.
- (iv) Dividend Payment Date.
- (v) Listing on Stock Exchanges.
- (vi) Stock Code.
- (vii) Market Price Data : High, Low during each month in last financial year.
- (viii) Performance in comparison to broad-based indices such as BSE Sensex, CRISIL index etc.
- (ix) Registrar and Transfer Agents.
- (x) Share Transfer System.
- (xi) Distribution of shareholding.
- (xii) Dematerialization of shares and liquidity.
- (xiii) Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity.
- (xiv) Plant Locations.
- (xv) Address for correspondence.

NON-MANDATORY REQUIREMENTS**1. The Board**

The Board - A non-executive Chairman may be entitled to maintain a Chairman's office at the Issuer's expenses and also allowed reimbursement of expenses incurred in performance of his duties. Independent Directors may have a tenure not exceeding, in the aggregate, a period of nine years, on the Board of a Issuer. The Issuer may ensure that the person who is being appointed as an independent director has the requisite qualifications and experience which would be of use to the Issuer and which, in the opinion of the Issuer, would enable him to contribute effectively to the Issuer in his capacity as an independent director."

2. Remuneration Committee

- (i) The board may set up a remuneration committee to determine on their behalf and on behalf of the shareholders with agreed terms of reference, the Issuer's policy on specific remuneration packages for executive directors including pension rights and any compensation payment.
- (ii) To avoid conflicts of interest, the remuneration committee, which would determine the remuneration packages of the executive directors may comprise of at least three directors, all of whom should be non-executive directors, the Chairman of committee being an independent director.
- (iii) All the members of the remuneration committee could be present at the meeting.
- (iv) The Chairman of the remuneration committee could be present at the Annual General Meeting, to answer the shareholder queries. However, it would be up to the Chairman to decide who should answer the queries.

3. Shareholder Rights

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

4. Audit qualifications

Issuer may move towards a regime of unqualified financial statements.

5. Training of Board Members

An Issuer may train its Board members in the business model of the Issuer as well as the risk profile of the business parameters of the Issuer, their responsibilities as directors, and the best ways to discharge them.

6. Mechanism for evaluating non-executive Board Members

The performance evaluation of non-executive directors could be done by a peer group comprising the entire Board of Directors, excluding the director being evaluated; and Peer Group evaluation could be the mechanism to determine whether to extend / continue the terms of appointment of non-executive directors.

7. Whistle Blower Policy

The Issuer may establish a mechanism for employees to report to the management concerns about unethical behaviour, actual or suspected fraud or violation of the Issuer's code of conduct or ethics policy. This mechanism could also provide for adequate safeguards against victimization of employees who avail of the mechanism and also provide for direct access to the Chairman of the Audit committee in exceptional cases. Once established, the existence of the mechanism may be appropriately communicated within the organization.
