



Company Law Corner

ALL ABOUT BOARD COMMITTEES

A board committee is a small working group identified by the board, consisting of board members, for the purpose of supporting the board's work. Committees are generally formed to perform some expertise work. Members of the committee are expected to have expertise in the specified field.

Committees are usually formed as a means of improving board effectiveness and efficiency, in areas where more focused, specialized and technical discussions are required. These committees prepare the groundwork for decision-making and report at the subsequent board meeting. Committees enable better management of full board's time and allow in-depth scrutiny and focused attention.

However, the Board of Directors are ultimately responsible for the acts of the committee. Board is responsible for defining the committee role and structure. The structure of a board and the planning of the board's work are key elements to effective governance. Establishing committees is one way of managing the work of the board, thereby strengthening the board's governance role. Board should regularly review its own structure and performance and whether it has the right committee structure and an appropriate scheme of delegation from the board.

Power of the Board of Directors to form a Committee

- The Board of Directors of the Company derive powers from Article of Association of the Company [Table F (Limited by shares) & H (Limited by Guarantee and not having share capital)] under the Companies Act, 2013:
 - (i) The Board may, subject to the provisions of the Companies Act, 2013 delegate any of its powers to committees consisting of such member or members of its body as it thinks fit.
 - (ii) Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may be imposed on it by the Board.
- Under Regulation 4 of the SEBI (LODR) Regulations, 2015
When committees of the board of directors are established, their mandate, composition and working procedures shall be well defined and disclosed by the board of directors.

Board Committees

Following are some of the important Committees required to be constituted by the Board:

Audit Committee

Audit Committee is one of the main pillars of the corporate governance mechanism in any company. Charged with the principal oversight of financial reporting and disclosure, the Audit Committee aims to enhance the confidence in the integrity of the company's financial reporting, the internal control processes and procedures and the risk management systems.

Applicability:

Section 177(1) of the Companies Act, 2013 read with Rule 6 of the Companies (Meetings of Board and its Powers) Rules, 2014, provides that the Board of Directors of following companies are required to constitute an Audit Committee of the Board-

- (i) Every Listed Public Company
- (ii) Public Companies having paid up share capital of Rs. 10 Crore or more; or
- (iii) Public Companies having turnover of Rs. 100 Crore or more; or
- (iv) Public Companies which have, in aggregate, outstanding loans, debentures and deposits, exceeding Rs. 50 Crore

The paid-up share capital or turnover or outstanding loans, debentures and deposits, as the case may be, as existing on the last date of latest audited financial statements shall be taken into account for the purposes of this rule.

The following classes of unlisted public company shall not be covered for above purpose: -

- (a) a joint venture;
- (b) a wholly owned subsidiary; and
- (c) a dormant company as defined under section 455 of the Companies Act, 2013.

➤ **Composition of Audit Committee:**

Under the Companies Act, 2013:

- The Audit Committee shall consist of a minimum of 3 directors with independent directors forming a majority.
- The majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statements.

Under Regulation 18 of the SEBI (LODR) Regulations, 2015:

- The audit committee is required to have minimum 3 directors as members.
- Two-thirds of the members of audit committee shall be independent directors.
- In case of a listed entity having outstanding SR equity shares, the audit committee shall only comprise of independent directors.
- All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

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

Explanation: a member shall 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.

- The chairperson of the audit committee shall be an independent director.
- The Company Secretary shall act as the secretary to the audit committee.

➤ Meetings of the Audit Committee

Under the Companies Act, 2013

- The Companies Act 2013 does not provide for Frequency of meeting of the Audit Committee. However, as per SS-1, Committees shall meet as often as necessary subject to the minimum number and frequency prescribed by any law or any authority or as stipulated by the Board.
- The auditors of a company and the key managerial personnel shall have a right to be heard in the meetings of the Audit Committee when it considers the auditor's report but shall not have the right to vote.
- Quorum for Audit Committee meeting – As per SS-1, the quorum for meetings of the committee constituted by the Board shall be as specified by the Board. If no such quorum is specified, the presence of all the members of any such committee is necessary to form the quorum.
- Regulations framed under any other law may contain provisions for the quorum of a committee and such stipulations shall be followed.

Under the SEBI (LODR) Regulations, 2015

- The audit committee shall meet at least 4 times in a year and not more than one hundred and twenty days shall elapse between two meetings.
- The quorum for audit committee meeting shall either be 2 members or 1/3 of the members of the audit committee, whichever is greater, with at least 2 independent directors.
- The chairperson of the audit committee is required to be present at Annual General Meeting to answer shareholder queries.
- The audit committee at its discretion shall invite the finance director or head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee. However, occasionally the audit committee may meet without the presence of any executives of the listed entity.

➤ Functions of the Audit Committee

Section 177(4) of the Companies Act, 2013 provides that every audit committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include, –

- the recommendation for appointment, remuneration and terms of appointment of auditors of the company;
- review and monitor the auditor's independence and performance, and effectiveness of audit process;
- examination of the financial statement and the auditors' report thereon;

- approval or any subsequent modification of transactions of the company with related parties;

The Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to such conditions as prescribed under rule 6A of the Companies (Meetings of Board and its Powers) Rules, 2014.

Further in case of transaction, other than transactions referred to in section 188 (Related Party Transactions), and where audit committee does not approve the transaction, it shall make its recommendations to the Board.

In case any transaction involving any amount not exceeding Rs. 1 Crore is entered into by a director or officer of the company without obtaining the approval of the audit committee and it is not ratified by the audit committee within 3 months from the date of the transaction, such transaction shall be voidable at the option of the audit committee and if the transaction is with the related party to any director or is authorised by any other director, the director concerned shall indemnify the company against any loss incurred by it.

However, the provisions of this clause shall not apply to a transaction, other than a transaction referred to in section 188, between a holding company and its wholly owned subsidiary company.

- scrutiny of inter-corporate loans and investments;
- valuation of undertakings or assets of the company, wherever it is necessary;
- valuation of internal financial controls and risk management systems;
- monitoring the end use of funds raised through public offers and related matters.

The Role of Audit Committee and the review of information by Audit Committee is prescribed under Part C of Schedule II of SEBI (LODR) Regulation, 2015. The role of Audit Committee under the Regulation 18 is wider than the Companies Act, 2013, which includes:

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

- judgment by management;
- (d) Significant adjustments made in the financial statements arising out of audit findings;
- (e) Compliance with listing and other legal requirements relating to financial statements;
- (f) Disclosure of any related party transactions;
- (g) Modified opinion(s) in the draft audit report;
- Reviewing, with the management, the quarterly financial statements before submission to the Board for approval;
- 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 utilization of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter;
- Reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;
- Approval or any subsequent modification of transactions of the listed entity with related parties;
- Scrutiny of inter-corporate loans and investments;
- Valuation of undertakings or assets of the listed entity, wherever it is necessary;
- Evaluation of internal financial controls and risk management systems;
- Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
- 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;
- Discussion with internal auditors of any significant findings and follow up there on;
- 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;
- 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;

- 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;
- To review the functioning of the whistle blower mechanism;
- Approval of appointment of chief financial officer after assessing the qualifications, experience and background, etc. of the candidate;
- Carrying out any other function as is mentioned in the terms of reference of the audit Committee.
- Reviewing the utilization of loans and/ or advances from/investment by the holding company in the subsidiary exceeding Rs.100 crore or 10% of the asset size of the subsidiary, whichever is lower including existing loans / advances / investments existing as on the date of coming into force of this provision.
- Consider and comment on rationale, cost-benefits and impact of schemes involving merger, demerger, amalgamation etc., on the listed entity and its shareholders

The Audit Committee shall mandatorily review the following information:

- Management discussion and analysis of financial condition and results of operations;
- Statement of significant related party transactions (as defined by the audit Committee), submitted by management;
- Management letters / letters of internal control weaknesses issued by the statutory auditors;
- Internal audit reports relating to internal control weaknesses; and
- The appointment, removal and terms of remuneration of the chief internal auditor shall be subject to review by the audit committee.
- Statement of deviations:
 - ✓ Quarterly statement of deviation(s) including report of monitoring agency, if applicable, submitted to stock exchange(s) in terms of Regulation 32(1) of the SEBI (LODR) Regulations, 2015.
 - ✓ Annual statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice in terms of Regulation 32(7) of the SEBI (LODR) Regulations, 2015.

➤ **Powers of the Audit Committee**

The Audit committee has the following powers under the section 177(5) of the Companies Act, 2013:

- The Audit Committee has the power to call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.
- The Audit Committee has authority to investigate into any matter in relation to

the items specified in terms of reference or referred to it by the Board and for this purpose the Committee has power to obtain professional advice from external sources.

- The Committee for this purpose shall have full access to information contained in the records of the company.

As per the SEBI (LODR) Regulations, 2015, the Audit Committee shall have the powers to:

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

➤ **Disclosure in Board Report**

The Board's report of the Company is required to disclose the composition of an Audit Committee and where the Board had not accepted any recommendation of the Audit Committee, the same shall be disclosed in such report along with the reasons therefor.

Vigil Mechanism

Sub-sections (9) and (10) of section 177 of the Companies Act, 2013 read with rule 7 of the Companies (Meetings of Board and its Powers) Rules, 2014 provide that:

Every listed company and the companies belonging to the following class or classes shall establish a vigil mechanism for their directors and employees to report their genuine concerns or grievances-

- the Companies which accept deposits from the public;
- the Companies which have borrowed money from banks and public financial institutions in excess of Rs. 50 Crore.

The companies which are required to constitute an audit committee shall oversee the vigil mechanism through the audit committee and if any of the members of the committee have a conflict of interest in a given case, they should recuse themselves and the others on the committee would deal with the matter on hand.

In case of other companies, the Board of directors shall nominate a director to play the role of audit committee for the purpose of vigil mechanism to whom other directors and employees may report their concerns.

The vigil mechanism provides adequate safeguards against victimization of director(s) or employee(s) or any other person who avail the mechanism and also provide for direct access to the chairperson of the audit committee or the director nominated to play the role of audit committee, as the case may be, in appropriate or exceptional cases.

In case of repeated frivolous complaints being filed by a director or an employee, the audit committee or the director nominated to play the role of audit committee may take suitable action against the concerned director or employee including reprimand.

The details of establishment of such mechanism are required to be disclosed by the company on its website, if any, and in the Board's report.

Nomination and Remuneration Committee

➤ **Applicability**

As per section 178 of the Companies Act, 2013 read with rule 6 of the Companies (Meetings of Board and its Powers) Rules, 2014, the Board of directors of every listed public company and the following classes of companies are required to constitute a Nomination and Remuneration Committee of the Board-

- Public companies with a paid-up share capital of Rs. 10 Crore or more;
- Public companies having turnover of Rs.100 Crore or more;
- Public companies, having in aggregate, outstanding loans debentures and deposits, exceeding Rs.50 Crore.

The paid-up share capital or turnover or outstanding loans, debentures and deposits, as the case may be, as existing on the last date of latest audited financial statements shall be taken into account for the above purpose.

The following classes of unlisted public company shall not be covered for above purpose:-

- (a) a joint venture;
- (b) a wholly owned subsidiary; and
- (c) a dormant company as defined under section 455 of the Companies Act, 2013.

➤ **Composition of the Nomination and Remuneration Committee: Under the Companies Act, 2013**

The Committee so constituted by the Board shall consist of

- 3 or more non-executive directors out of which not less than one-half shall be independent directors.
- The chairperson of the company (whether executive or non-executive) may be appointed as a member of the Nomination and Remuneration Committee but shall not chair such Committee.

Under Regulation 19 of the SEBI(LODR) Regulations, 2015

Additionally, for listed Companies, SEBI (LODR) Regulations, 2015 provides that the nomination and remuneration Committee shall comprise of:

- (a) At least three Directors.
- (b) All Directors of the Committee shall be non-executive Directors; and
- (c) At least fifty percent of the Directors shall be Independent Directors; and
- (d) In case of a listed entity having outstanding SR equity shares, two thirds of the nomination and remuneration Committee shall comprise of Independent Directors.

The Chairman of the committee shall be an independent director.

➤ **Meeting of the Nomination and Remuneration Committee**

As per SS-1, Nomination and Remuneration Committees shall meet as often as necessary subject to the minimum number and frequency prescribed by any law or any authority or as stipulated by the Board.

The chairperson of the committee or, in his absence, any other member of the committee authorised by him in this behalf shall attend the general meetings of the company.

Quorum of Nomination and Remuneration Committee meeting – As per SS-1, the quorum for meetings of the committee constituted by the Board shall be as specified by the Board. If no such quorum is specified, the presence of all the members of any such Committee is necessary to form the quorum.

Regulations framed under any other law may contain provisions for the quorum of a committee and such stipulations shall be followed.

Under SEBI (LODR) Regulations, 2015,

- the nomination and remuneration committee shall meet at least once in a year.
- the quorum for a meeting of the nomination and remuneration committee shall be either 2 members or one third of the members of the committee, whichever is greater, including at least 1 independent director in attendance.
- the Chairman of the committee may be present at the Annual General Meeting, to answer the shareholders' queries. However, it would be up to the Chairman to decide who shall answer the queries.

➤ **Functions of the Nomination and Remuneration Committee**

Sub- sections (2), (3) and (4) of section 178 deal specifically with the functions of the Nomination and Remuneration Committee, which include:

- Identification of persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down,
- Recommendation to the Board regarding their appointment and removal.
- Specification of the manner for effective evaluation of performance of Board, its committees and individual directors to be carried out either by the Board, by the Nomination and Remuneration Committee or by an independent external agency and review its implementation and compliance.
- Formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration for the directors, key managerial personnel and other employees.
- While formulating the policy, the Committee shall consider the following:
 - (a) 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;

- (b) relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
- (c) remuneration to directors, key managerial personnel and senior management involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals.

Such policy shall be placed on the website of the company, if any, and the salient features of the policy and changes therein, if any, along with the web address of the policy, if any, shall be disclosed in the Board's report.

Functions of the Nomination and Remuneration committee as specified in Part D of the Schedule II of SEBI (LODR) Regulation, 2015

- Formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration of the directors, key managerial personnel and other employees;
- Formulation of criteria for evaluation of Independent Directors and the Board;
- Devising a policy on Board diversity;
- Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the Board their appointment and removal.
- Whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors.
- Recommend to the board, all remuneration, in whatever form, payable to senior management.

Stakeholders Relationship Committee

➤ **Applicability**

Sub-Section (5) of section 178 provides that the Board of Directors of a company which consists of more than 1000 shareholders, debenture-holders, deposit-holders and any other security holders at any time during a financial year shall constitute a Stakeholders Relationship Committee.

➤ **Composition of Stakeholders Relationship Committee**

It shall consist of a chairperson who shall be a non-executive director and such other members as may be decided by the Board.

Under Regulation 20 of SEBI (LODR) Regulations, 2015

The listed entity shall constitute a Stakeholders Relationship Committee to specifically look into various aspects of interest of shareholders, debenture holders and other security holders.

It shall consist of:

- At least 3 directors, with at least 1 being an independent director, who shall be the members of the Committee
- In case of a listed entity having outstanding SR equity shares, at least two thirds of the Stakeholders Relationship Committee shall comprise of independent directors.
- The chairperson of this committee shall be a non-executive director.

➤ **Meeting of the Stakeholders Relationship Committee**

As per SS-1, Stakeholders Relationship Committees shall meet as often as necessary subject to the minimum number and frequency prescribed by any law or any authority or as stipulated by the Board.

The chairperson of the committee or, in his absence, any other member of the committee authorised by him in this behalf shall attend the general meetings of the company.

Quorum for Stakeholders Relationship Committee meeting – As per SS-1, the quorum for meetings of the committee constituted by the Board shall be as specified by the Board. If no such quorum is specified, the presence of all the members of any such committee is necessary to form the Quorum.

Regulations framed under any other law may contain provisions for the quorum of a committee and such stipulations shall be followed

Under SEBI (LODR) Regulations, 2015

- The Stakeholders Relationship Committee shall meet at least once in a year.
- The Chairperson of the Stakeholders Relationship Committee is mandatorily required to be present at the Annual General Meetings to answer queries of the security holders.

➤ **Functions of the Stakeholders Relationship Committee**

The main function of the committee is to consider and resolve the grievances of security holders of the company. On similar terms Part D of the Schedule II of the SEBI (LODR) Regulations, 2015 provides the role of the committee which *inter-alia* include the following:

- Resolving the grievances of the security holders of the listed entity including complaints related to transfer/transmission of shares, non-receipt of annual report, non-receipt of declared dividends, issue of new/duplicate certificates, general meetings etc.
- Review of measures taken for effective exercise of voting rights by shareholders.
- Review of adherence to the service standards adopted by the listed entity in respect of various services being rendered by the Registrar & Share Transfer Agent.

- Review of the various measures and initiatives taken by the listed entity for reducing the quantum of unclaimed dividends and ensuring timely receipt of dividend warrants/annual reports/statutory notices by the shareholders of the company.

Corporate Social Responsibility Committee

➤ Applicability

- Every company having net worth of Rs.500 crore or more, or turnover of Rs.1000 crore or more or a net profit of Rs.5 Crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board.
- A Company which ceases to be a company covered under the above three threshold requirement to constitute CSR Committee for three consecutive financial years shall not be required to constitute CSR Committee and comply with the provisions contained in sub-section (2) to (6) of Section 135 of Companies Act, 2013 till such time it meets the threshold as specified above. [Rule 3(2) of Companies (Corporate Social Responsibility Policy) Rules, 2014].
- Where the CSR obligation of the company does not exceed Rs.50 Lakhs, the requirement for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such Committee provided under section
- 135 shall, in such cases, be discharged by the Board of Directors of such company.

➤ Composition of CSR Committee

- The CSR Committee shall consist of 3 or more directors, out of which at least 1 director shall be an Independent Director.
- However, where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its Corporate Social Responsibility Committee 2 or more directors.
- A private company having only 2 directors on its Board shall constitute its CSR Committee with 2 such directors.
- With respect to a foreign company, the CSR Committee shall comprise of at least 2 persons of which one person shall be as specified under clause (d) of sub-section (1) of section 380 of the Companies Act, 2013 and another person shall be nominated by the foreign company.

➤ Meeting of the CSR Committee

- As per SS-1, the committee shall meet as often as necessary subject to the minimum number and frequency prescribed by any law or any authority or as stipulated by the Board.
- Quorum of CSR Committee meeting – As per SS-1, the quorum for meetings of the committee constituted by the Board shall be as specified by the Board. If

no such quorum is specified, the presence of all the members of any such committee is necessary to form the quorum.

- Regulations framed under any other law may contain provisions for the quorum of a committee and such stipulations shall be followed.

➤ **Functions of CSR Committee**

- formulating and recommending to the Board, a CSR Policy which shall indicate the activities to be undertaken by the company in areas or subject as specified in Schedule VII of the Companies Act, 2013;
- recommending the amount of expenditure to be incurred on the CSR activities.
- monitoring the Corporate Social Responsibility Policy of the company from time to time.
- Further the CSR rules provide that the CSR Committee shall formulate and recommend to the Board, an annual action plan in pursuance of its CSR policy, which shall include the following, namely: -
 - (a) the list of CSR projects or programmes that are approved to be undertaken in areas or subjects specified in Schedule VII of the Companies Act, 2013;
 - (b) the manner of execution of such projects or programmes as specified in sub-rule (1) of rule 4 of CSR Rules;
 - (c) the modalities of utilisation of funds and implementation schedules for the projects or programmes;
 - (d) monitoring and reporting mechanism for the projects or programmes; and
 - (e) details of need and impact assessment, if any, for the projects undertaken by the company.

However, Board may alter such plan at any time during the financial year, as per the recommendation of its CSR Committee, based on the reasonable justification to that effect.

➤ **Disclosure related to CSR Committee**

- The Board of Directors of every company after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as prescribed;
- The Board of Directors of the Company are mandatorily required to disclose the composition of the CSR Committee, and CSR Policy and Projects approved by the Board on their website, if any, for public access.

Risk Management Committee

A Risk Management Committee fosters an integrated, enterprise-wide approach to identify and manage risk and provides an impetus toward improving the quality of risk reporting and monitoring, both for management and the Board.

In addition to the requirement of the Companies Act 2013 as well as the SEBI (LODR) Regulations, 2015, the audit committee evaluates internal financial controls and risk management systems of the company.

Regulation 21 of the SEBI (LODR) Regulations, 2015 requires that the company through its Board of Directors shall constitute a Risk Management Committee.

➤ **Applicability**

The provisions of this regulation shall be applicable to top 1000 listed entities, determined on the basis of market capitalisation, as at the end of the immediate previous financial year.

➤ **Composition of Risk Management Committee**

- The Risk Management Committee shall have minimum 3 members with majority of them being members of the board of directors, including at least one independent director.
- In case of a listed entity having outstanding SR equity shares, at least two-thirds of the Risk Management Committee shall comprise independent directors.
- The Chairperson of the Risk management committee shall be a member of the board of directors and senior executives of the listed entity may be members of the committee.

➤ **Meeting of Risk Management Committee**

- The risk management committee shall meet at least twice in a year.
- The quorum for a meeting of the Risk Management Committee shall be either 2 members or one-third of the members of the committee, whichever is higher, including at least 1 member of the board of directors in attendance.
- The meetings of the risk management committee shall be conducted in such a manner that on a continuous basis not more than 180 days shall elapse between any two consecutive meetings.

➤ **Functions of Risk Management Committee**

The board of directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit, such function shall specifically cover cyber security.

The role and responsibilities of the Risk Management Committee shall mandatorily include the performance of functions specified in Part D of Schedule II of SEBI (LODR) Regulations, 2015.

The role of the committee shall, inter alia, include the following:

- To formulate a detailed risk management policy which shall include:
 - (a) A framework for identification of internal and external risks specifically faced by the listed entity, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.
 - (b) Measures for risk mitigation including systems and processes for internal control of identified risks.
 - (c) Business continuity plan.
- To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;
- To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;
- To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;
- To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;
- The appointment, removal and terms of remuneration of the Chief Risk Officer (if any) shall be subject to review by the Risk Management Committee.
- The Risk Management Committee shall coordinate its activities with other committees, in instances where there is any overlap with activities of such committees, as per the framework laid down by the board of directors.

➤ **Power of the Risk Management Committee**

The Risk Management Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

➤ **Disclosure of Risk Management Committee**

The Companies Act, 2013 provides that a disclosure to be made in the board report with a statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company

Conclusion

Board Committees are the pillars of Corporate Governance. As the responsibilities of directors have become more demanding, Boards have increasingly formed committees to deal with some of their more detailed work. As the needs of the Board change, the need for committees may also change. Hence, it is essential that committees and their role be subject to periodic review. Board members should be aware that Board responsibilities remain, when serving on a Board committee, and may be enhanced. To be more effective, Board committees should have the appropriate balance of skills, experience,

independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

In general, Board committees focus on specific areas allowing the Board to concentrate on broader issues and directions. The work of the committees should be directed by the Board. Board committees should have their own charter setting out their roles and responsibilities, for example, in the area of membership (including succession planning), meeting frequency and core agenda, committee authority, reporting obligations etc. committees should be appropriately constituted, taking into account any relevant legislation and the objectives of the company. Day by day, the role of independent director is gaining importance in the effect functioning of the Board committees. Board committees with formally established terms of reference, criteria for appointment, life span, role and function constitute an important element of the governance process and should be established with clearly agreed reporting procedures and a written scope of authority. Board committees should be free to take independent outside professional advice when necessary, at the cost of the company, subject to a proper process being followed.
