भारतीय कम्पनी सचिव संस्थान
THE INSTITUTE OF
Company Secretaries of India
IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament
(Under the jurisdiction of Ministry of Corporate Affairs)

SUPPLEMENT
PROFESSIONAL PROGRAMME
(SYLLABUS 2022)

for

December, 2026 Examination

(Containing updates upto 31st May, 2026)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) – PRINCIPLES & PRACTICE

GROUP 1

PAPER 1

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Students appearing in Examination shall note the following:

Students appearing in December, 2026 Examination should also update themselves on all the relevant Notifications, Circulars, Clarifications, Orders etc. issued by MCA, SEBI, RBI & Central Government upto 31st May, 2026.

The students are advised to acquaint themselves with the Subject Specific Updates published by the Institute.

This supplement is to be read with the Environmental, Social and Governance (ESG) – Principles & Practice study material (Syllabus 2022) updated up to May, 2025.

Lesson 1

Conceptual Framework of Corporate Governance

The Enhancement and Standardization of Climate-Related Disclosures for Investors

The U.S. Securities and Exchange Commission adopted rules to enhance and standardize climate-related disclosures by public companies and in public offerings on March 6, 2024. The Rules reflect the Commission's efforts to respond to investors' demand for more consistent, comparable, and reliable information about the financial effects of climate-related risks on a registrant's operations and how it manages those risks while balancing concerns about mitigating the associated costs of the rules.

The rules will require a registrant to disclose the following:

- Climate-related risks that have had or are reasonably likely to have a material impact on the registrant's business strategy, results of operations, or financial condition in the short-term (i.e., the next 12 months) and in the long-term (i.e., beyond the next 12 months);
- The actual and potential material impacts of any identified climate-related risks on the registrant's strategy, business model, and outlook;
- If, as part of its strategy, a registrant has undertaken activities to mitigate or adapt to a material climate-related risk, a quantitative and qualitative description of material expenditures incurred and material impacts on financial estimates and assumptions that directly result from such mitigation or adaptation activities;
- Specified disclosures regarding a registrant's activities, if any, to mitigate or adapt to a material climate-related risk including the use, if any, of transition plans, scenario analysis, or internal carbon prices;
- Any oversight by the board of directors of climate-related risks and any role by management in assessing and managing the registrant's material climate-related risks;
- Any processes the registrant has for identifying, assessing, and managing material climate-related risks and, if the registrant is managing those risks, whether and how any such processes are integrated into the registrant's overall risk management system or processes;
- Information about a registrant's climate-related targets or goals, if any, that have materially affected or are reasonably likely to materially affect the registrant's business, results of operations, or financial condition. Disclosures would include

material expenditures and material impacts on financial estimates and assumptions as a direct result of the target or goal or actions taken to make progress toward meeting such target or goal;

- For large accelerated filers (LAFs) and accelerated filers (AFs) that are not otherwise exempted, information about material Scope 1 emissions and/or Scope 2 emissions;
- For those required to disclose Scope 1 and/or Scope 2 emissions, an assurance report at the limited assurance level, which, for an LAF, following an additional transition period, will be at the reasonable assurance level;
- The capitalized costs, expenditures expensed, charges, and losses incurred as a result of severe weather events and other natural conditions, such as hurricanes, tornadoes, flooding, drought, wildfires, extreme temperatures, and sea level rise, subject to applicable one percent and de minimis disclosure thresholds, disclosed in a note to the financial statements;
- The capitalized costs, expenditures expensed, and losses related to carbon offsets and renewable energy credits or certificates (RECs) if used as a material component of a registrant's plans to achieve its disclosed climate-related targets or goals, disclosed in a note to the financial statements; and
- If the estimates and assumptions a registrant uses to produce the financial statements were materially impacted by risks and uncertainties associated with severe weather events and other natural conditions or any disclosed climate-related targets or transition plans, a qualitative description of how the development of such estimates and assumptions was impacted, disclosed in a note to the financial statements.

Section 303A Corporate Governance Standards- NYSE

General Application

Companies listed on the Exchange must comply with certain standards regarding corporate governance as codified in the Section 303A. Consistent with the NYSE's traditional approach, as well as the requirements of the Sarbanes-Oxley Act of 2002, certain provisions of Section 303A are applicable to some listed companies but not to others.

01. Independent Directors	Listed companies must have a majority of independent directors which will increase the quality of board oversight and lessen the possibility of damaging conflicts of interest.

02. Independence Tests	(a) The Independent Director must not have material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). (b) A director is not independent if: (i) The director is, or has been within the last three years, an employee of the listed company, or an immediate family member is, or has been within the last three years, an executive officer, of the listed company. (ii) The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than $120,000 in direct compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in anyway on continued service). (iii) The director is a current partner or employee of a firm that is the listed company's internal or external auditor. The director has an immediate family member who is a current partner of such a firm. The director has an immediate family member who is a current employee of such a firm and personally works on the listed company's audit; or the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the listed company's audit within that time. (iv) The director or an immediate family member is, or has been with the last three years, employed as an executive officer of another company where any of the listed company's present executive officers at the same time serves or served on that company's compensation committee.

	(v) The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the listed company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1 million, or 2% of such other company's consolidated gross revenues.
03. Executive Sessions	To empower non-management directors to serve as a more effective check on management, the non-management directors of each listed company must meet at regularly scheduled executive sessions without management.
04. Nominating/Corporate Governance Committee	Listed companies must have a nominating/corporate governance committee composed entirely of independent directors which shall: (i) identify individuals qualified to become board members, consistent with criteria approved by the board, and to select, or to recommend that the board select, the director nominees for the next annual meeting of shareholders. (ii) develop and recommend to the board a set of corporate governance guidelines applicable to the corporation. (iii) oversee the evaluation of the board and management.
05. Compensation Committee	Listed companies must have a compensation committee composed entirely of independent directors which shall: (i) review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and, either as a committee or together with the other independent directors (as directed by the board), determine and approve the CEO's compensation level based on this evaluation; (ii) make recommendations to the board with respect to non-CEO executive officer compensation, and

	incentive-compensation and equity-based plans that are subject to board approval. (iii) be responsible for the appointment, compensation and oversight of the work of any compensation consultant, independent legal counsel or other adviser retained by the compensation committee.
06. Audit Committee	(i) The audit committee must have a minimum of three members who must satisfy the requirements for independence. (ii) The audit committee shall assist board in oversight of (1) the integrity of the listed company's financial statements, (2) the listed company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the listed company's internal audit function and independent auditors. (iii) The audit committee shall review and discuss the listed company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including reviewing the listed company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations". (iv) The audit committee shall discuss the listed company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies. (v) The committee shall also discuss policies with respect to risk assessment and risk management. (vi) The committee shall meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors; and review with the independent auditor any audit problems or difficulties and management's response.

	(vii) The Committee shall also set clear hiring policies for employees or former employees of the independent auditors.
07. Shareholder Approval of Equity Compensation Plans	Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, subject to certain exemptions specified in Section 303A.08 of the Listing Manual.
08. Corporate Governance Guidelines	The following subjects must be addressed in the corporate governance guidelines: (i) Director qualification standards. (ii) Director responsibilities. (iii) Director access to management and, as necessary and appropriate, independent advisors. (iv) Director compensation. (v) Director orientation and continuing education. (vi) Management succession. (vii) Annual performance evaluation of the board.

Lesson 2

Legislative Framework of Corporate Governance in India

‘Fit and Proper’ Criteria for Elected Directors on the Boards of Public Sector Banks (PSBs)

The RBI vide its Master Direction No. RBI/DOR/2025-26/149 DOR.HGG.GOV. No.68/29.67.001/2025-26 dated 28th November, 2025 issued Reserve Bank of India (Commercial Banks - Governance) Directions, 2025 specifying therein the Fit and Proper’ Criteria for Elected Directors on the Board of a Public Sector Bank (PSB).

Authority

- A PSB shall constitute a Nomination and Remuneration Committee (NRC) consisting of only Non-Executive Directors (NEDs) from amongst the Board of Directors.
- The Government of India nominee director and the director nominated under section 19(f) of the SBI Act / Section 9(3)(c) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 shall not be part of the Committee.
- The Chair of the Board shall not chair the NRC and the meetings of NRC shall be chaired by an independent director.
- The NRC shall meet with a quorum of three members where at least half of the members attending the meeting shall be independent directors, of which one shall be a member of the Risk Management Committee of the Board (RMCB).

Manner and procedure

- The banks shall obtain necessary information, and a declaration & undertaking, in the prescribed form, from the persons who file their nominations for election.
- The Committee shall meet after the last date prescribed for acceptance of nominations and determine whether or not the person’s candidature should be accepted, based on the ‘Fit and Proper' Criteria.
- The Committee’s discussions shall be properly recorded as formal minutes of the meeting and the voting, if done, shall also be noted.
- The Committee shall also make references, where considered necessary, to the appropriate authority / persons, to ensure that the candidate conforms to the requirements indicated.

Criteria

The Committee shall determine the ‘fit and proper’ status of the proposed candidates based on the broad criteria mentioned hereunder:

- **Age –** The candidate's age should be between 35 to 67 years as on the cut-off date fixed for submission of nominations for election.
- **Educational qualification –** The candidate should at least be a graduate.
- **Experience and field of expertise –** The candidate shall have special knowledge or practical experience in respect of one or more of the following areas, namely:
  (a) Agriculture and Rural economy,
  (b) Banking,
  (c) Co-operation,
  (d) Economics,
  (e) Finance,
  (f) Law,
  (g) Small-scale industry,
  (h) Information Technology,
  (i) Payment & Settlement Systems,
  (j) Human Resources,
  (k) Risk Management,
  (l) Business Management, and
  (m) any other matter the special knowledge of, and practical experience in, which would, in the opinion of RBI, be useful to the bank.
- **Disqualifications -** In addition to 'Disqualifications of Directors' as prescribed in Section 22 of the SBI Act, 1955 / Clause 10 of Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970/80, a candidate shall not:
  a. be a member of the Board of any bank or RBI or a Financial Institution (FI) or an Insurance Company or a Non-Operative Financial Holding Company (NOFHC) holding any other bank.
  b. be a person connected with hire purchase, financing, money lending, investment, leasing and other para banking activities. However, investors of such entities shall not be disqualified for appointment as directors if they do not enjoy any managerial control in them.
  c. have served as director in the past on the board of any bank/FI/RBI/Insurance Company under any category for six years, whether continuously or intermittently.
  d. be engaging in the business of stock broking.
  e. be holding the position of a Member of Parliament or State Legislature or Municipal Corporation or Municipality or other local bodies.
  f. be acting as a partner of a Chartered Accountant firm which is currently engaged as a Statutory Central Auditor of any other PSB.
  g. be acting as a partner of a Chartered Accountant firm which is currently engaged as Statutory Branch Auditor or Concurrent Auditor of the PSB in which nomination for election is filed.
- **Tenure –** An elected director shall hold office for three years and shall be eligible for re-election: Provided that no such director shall hold office for a period exceeding six years, whether served continuously or intermittently.

- **Professional Restrictions –**
  - (a) The candidate should neither have any business connection (including legal services, advisory services etc.) with the concerned PSB nor should be engaged in activities which might result in a conflict of business interests with that PSB.
  - (b) The candidate should not have any professional relationship with a bank or any NOFHC holding any other bank.

  However, a candidate having any such relationship with a bank at the time of filing nomination for election shall be deemed to be meeting the requirement under item (b), upon submission of a declaration to the Committee that such relationship with the bank shall be severed if he is elected as a director, and upon being elected, the candidate shall sever such relationship before appointment as a director of the PSB.

- **Track record and integrity -** The candidate shall not be under adverse notice of any regulatory or supervisory authority/agency, or law enforcement agency and shall not be a defaulter of any lending institution.

Documents to be obtained from an elected director

The PSB shall obtain from an elected director:

(a) a Deed of Covenant executed in the prescribed format before such person assumes office;
(b) a declaration as on 31st March every year to the effect that the information already provided by such person has not undergone any change. In case of change the PSB shall obtain from such director a fresh declaration incorporating the changes.
(c) a full and proper disclosure of their interests and directorships in business entities; and
(d) in case the elected director is a CA (hereinafter referred as 'CA director'), the list of their or their firm's clients.

Compliances

(1) The PSB shall also ensure compliance to Section 20 of the Banking Regulation Act, 1949 and additionally ensure:
    (a) that an elected director distances themselves from and does not participate in the PSB's credit or investment decisions involving entities in which they are interested;
    (b) to put in place a system of safeguards for a CA director so that they do not participate in PSB's credit or investment decisions involving their/firm's clients. The CA director shall be required to compulsorily dissociate himself from the entire process and sign a covenant to this effect.
    (c) that no professional work is allotted to a person who was an elected director of that PSB, for a period of two years after demitting office as such director.
(2) An elected director shall be deemed to be not fulfilling the requirements of sub-section (2) of section 19A of the SBI Act/ sub-section (3AA) of section 9 of the

Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and shall be liable for the consequences thereof, if they:

(a) fail to
    (i) submit the Deed of Covenant or declaration; or
    (ii) make proper disclosures; or
    (iii) refrain from participating in credit/investment decisions, where he is interested; or

(b) makes incomplete or incorrect disclosures, or

(c) involves in such activities that render him/her 'not fit and proper' as per the criteria mentioned above.

GUIDELINES ON CORPORATE GOVERNANCE FOR NBFCs

In order to enable NBFCs to adopt best practices and greater transparency in their operations, the RBI vide its Master Direction No. RBI/DOR/2025-26/344 DOR.GOV.REC.No.263/18-10-013/2025-267 dated 28th November, 2025 issued the Reserve Bank of India (Non-Banking Financial Companies - Governance) Directions, 2025. These directions are applicable to Non-Banking Financial Companies (NBFCs) subject to Layer-wise applicability as specified therein. Further, these Directions are not applicable to an Non-Operative Financial Holding Company (NOFHC) registered with the RBI as an NBFC under the provisions of the RBI Act, 1934.

As per Chapter IV of the captioned Master Directions, the NBFCs-Middle Layer (NBFCs-ML) and Upper Layer (NBFCs-UL) shall constitute the following Committees:

1. **Audit Committee:**
    i. The Audit Committee shall consist of not less than three members of its Board of Directors.
    ii. The Audit Committee must ensure that an Information System Audit of the internal systems and processes is conducted periodically to assess operational risks faced by the NBFCs.
2. **Nomination Committee:** The Nomination and Remuneration Committee (NRC) shall have the constitution, powers, functions and duties as laid down in Section 178 of the Companies Act, 2013. However, a Government-owned NBFC shall, in lieu of the requirement under this paragraph, form a Nomination Committee to ensure 'fit and proper' status of proposed/ existing directors, and such Committee shall have the same powers, functions and duties as laid down in Section 178 of the Companies Act, 2013.
3. **Risk Management Committee:** All NBFCs shall constitute a Risk Management Committee (RMC) either at the Board or executive level which shall be responsible for evaluating the overall risks faced by the NBFC including liquidity risk and shall report to the Board.

Appointment of Chief Risk Officer (CRO)

With the increasing role of NBFCs in direct credit intermediation, there is a need for NBFCs to augment risk management practices. While Boards of NBFCs should strive to follow best practices in risk management, NBFCs with asset size of more than Rs.5000 Crore shall appoint a Chief Risk Officer (CRO) with clearly specified role and responsibilities. The CRO is required to function independently so as to ensure highest standards of risk management.

The NBFCs shall strictly adhere to the following instructions in this regard:

(a) The CRO shall be a senior official in the hierarchy of an NBFC and shall possess adequate professional qualification/ experience in risk management.

(b) The CRO shall be appointed for a fixed tenure with the approval of the Board.

The CRO can be transferred/ removed from his post before completion of the tenure only with the approval of the Board and such premature transfer/ removal shall be reported to the Department of Supervision of the Regional Office of RBI (NHB in case of HFCs) under whose jurisdiction the NBFC is registered. In case the NBFC is listed, any change in incumbency of the CRO shall also be reported to the stock exchanges.

(c) The Board shall put in place policies to safeguard the independence of the CRO. In this regard,

(d) The CRO shall have direct reporting lines to the MD & CEO/ Risk Management Committee (RMC) of the Board. In case the CRO reports to the MD & CEO, the RMC/ Board shall meet the CRO without the presence of the MD & CEO, at least on a quarterly basis.

(e) The CRO shall not have any reporting relationship with the business verticals of the NBFC and shall not be given any business targets. Further, there shall not be any 'dual hatting' i.e. the CRO shall not be given any other responsibility.

(f) The CRO shall be involved in the process of identification, measurement and mitigation of risks. All credit products (retail or wholesale) shall be vetted by the CRO from the angle of inherent and control risks. The CRO's role in deciding credit proposals shall be limited to being an advisor.

(g) In NBFCs that follow committee approach in credit sanction process for high value proposals, if the CRO is one of the decision makers in the credit sanction process, the CRO shall have voting power and all members who are part of the credit sanction process, shall individually and severally be liable for all the aspects, including risk perspective related to the credit proposal.

Fit and Proper Criteria

An NBFC falling under the Middle Layer or Upper Layer shall -

i. ensure that a policy is put in place with the approval of the Board of Directors for ascertaining the fit and proper criteria of the directors at the time of appointment, and on a continuing basis;

ii. obtain a declaration and undertaking from the directors giving additional information on the directors and a Deed of Covenant signed by the directors;

iii. furnish to RBI, a quarterly statement on change of directors, and a certificate from the Managing Director /CEO that fit and proper criteria in selection of the directors has been followed. The statement must reach the Regional Office of the Department of Non-Banking Supervision of the Bank where the company is registered, within 15 days of the close of the respective quarter. The statement submitted by applicable NBFC for the quarter ending March 31, shall be certified by the auditors.

Framing of Internal Guidelines:

All NBFCs-Middle Layer (NBFCs-ML) and Upper Layer (NBFCs-UL) shall frame their internal guidelines on corporate governance with the approval of the Board of Directors, enhancing the scope of these directions without sacrificing the spirit underlying and it shall be published on the company's web-site, if any, for the information of various stakeholders.

Appointment of Chief Compliance Officer

In order to ensure an effective compliance culture, it is necessary to have an independent compliance function and a strong compliance risk management framework in NBFCs. In this regard, all NBFCs-Middle Layer (NBFCs-ML) and Upper Layer (NBFCs-UL) shall appoint a Chief Compliance Officer (CCO), who should be sufficiently senior in the organization hierarchy; and also, put in place a Board approved policy laying down the role and responsibilities of the CCO with the objective of promoting better compliance culture in the organization.

CORPORATE GOVERNANCE REGULATIONS FOR INSURANCE COMPANIES

The Insurance Regulatory and Development Authority of India (IRDAI) issued Insurance Regulatory and Development Authority of India (Corporate Governance for Insurers) Regulations, 2024 (the Regulations) dated 20th March, 2024 which are applicable to all insurers except foreign company engaged in re-insurance business through a branch established in India. The Regulations provide the framework for insurers to adopt sound and prudent principles and practices of their governance structure; and a framework of roles and responsibilities of the Board and the management of insurers, to protect the interests of all stakeholders including policyholders; and to establish the framework for stewardship principles to be adopted by insurers.

Further, the Authority issued a 'Master Circular on Corporate Governance for Insurers, 2024" (the Master Circular) dated 22nd May, 2024 to provide various operational and procedural aspects, for adoption by all insurers.

1. Board of Directors

1.1. Composition

- Every insurer shall have a Board comprising of competent and qualified individuals as directors, with qualifications and experience that are commensurate with scale, nature, complexity of business and size of the insurer, from various areas of financial and management expertise.
- Insurer shall ensure an optimum composition of Independent Directors and Non-Executive Directors, subject to a minimum of three independent Directors.
- The quorum for the board meetings shall be one-third of the total strength of the board or three directors, whichever is higher.
- The Chief Executive Officer shall be a Whole-time Director of the Board and the Chairperson of the Board shall be appointed with the prior approval of the Competent Authority except for public sector insurers. It is good practice for the Chair of the Board to be a non-executive Board member and not serve as chair of any Board committee.
- Insurance companies should ensure that the Board comprises of competent and qualified Directors to drive the strategies in a manner that would sustain growth and protect the interests of the stakeholders in general and policyholders in particular.
- The size of the Board in addition to being compliant with legal requirements (where applicable), should be consistent with scale, nature and complexity of business.
- The directors shall fulfil the "fit and proper" criteria, at all times, on a continuous basis, as may be specified by the Competent Authority.
- An independent Directors shall fulfill all the conditions specified under Section 149 of the Companies Act, 2013 and an appointment letter shall be issued to the Independent Director laying down the terms and conditions, including his duties, responsibilities, sitting fees, etc.
- In case the number of independent directors falls below the required minimum laid down, such vacancy shall be filled up before the immediately following Board meeting or 3 months from the date of such vacancy, whichever is later, under intimation to the Authority.
- As required under Section 149 of the Companies Act, 2013, there shall be at least one Woman Director on the Board of every Insurance company.
- It is essential that the Directors possess the knowledge of group structure, organizational structure, process and products of the insurer and the Board shall comply with the following key requirements-
  - The Board of Directors should understand the operational structure of the insurer and have a general understanding of the lines of business and products of the insurer, more particularly as the insurer grows in size and complexity.

- The Board of Directors of an insurer belonging to a larger group structure/ conglomerate should understand the material risks and issues that could affect the group entities, with attendant implication on the insurer.
- In case of insurer under conglomerate structure and where there is potential scope for transfer of risks and conflicts of interests that affect the group entities, the optimum composition of Independent Directors and Non-Executive Directors shall enhance the quality of business judgment and benefits of the shareholders and policyholders.

- Chairperson of the insurer as on the date of issue of Master circular was permitted to continue as Chairperson upto 31st March 2026 or till he/she completes his/her current tenure, whichever is earlier.
- The insurers shall, inter-alia, ensure the following:
  (a) independence of the Board from the management as well as the promoters; and
  (b) independence of control functions including compliance, risk, audit, actuarial and secretarial function.

1.2. Appointment of Common Directors

- Following are the conditions for appointment or continuation of common director representing insurance agent, intermediary or insurance intermediary on the board of insurance company:
  a. The proposed director shall not be working in the capacity of the Chief Insurance Executive / Specified Person or any other officer responsible for soliciting insurance business for or on behalf of the insurance agent, intermediary or insurance intermediary while holding the position of director in the insurance company.
  b. There should be no conflict of interest or prejudice against the interest of the policyholders as a result of such appointment.
  c. Non-Executive Directors appointed under section 48A of the Insurance Act, 1938 shall be eligible for remuneration as per Clause 9.1 "Remuneration of Non-Executive Directors of Insurers" of the Master circular.
  d. A resolution is passed approving such appointment by the Board of insurance company/agent/ intermediary/insurance intermediary.
  e. The common director shall recuse himself/herself from the discussion and voting on any matter/discussion pertaining to:
     (A) Any area having potential conflict of interest;
     (B) Insurer/Agent/Intermediary/Insurance intermediary where she/he is holding common directorship.
  f. The number of directorships held by the common director shall not exceed, at any point of time, the maximum number of directorships specified under the extant law including the Companies Act.
- An individual, already acting or proposed to act as Executive Director / Whole-Time Director on the Board of the Insurer/Agent/Intermediary/Insurance intermediary,

shall not be appointed as nominee/common director. This clause shall not be applicable in case of any director appointed or proposed to be appointed as a nominee of a promoter of the insurer.

- The common director may be appointed as Chairperson on the Board of the insurance company/ agent/intermediary/insurance intermediary subject to necessary safeguards, to be put in place at all the times, to protect the interest of policyholders and to avoid the conflict of interest as may arise due to such appointment.
- The insurers shall file a certificate on an annual basis, duly certified by the CEO, confirming compliance with the provisions of the Master circular on a financial year basis, within 3 months from end of the financial year i.e. before 30th June. The format for certificate in this regard shall be as specified in the Master Circular on Submission of Returns.

1.3. Roles and responsibility of the Board

The Role and Responsibilities of the Board of insurers inter-alia include the following:

1) The Board members should act on a fully informed basis, in good faith, with due diligence and care, applying high ethical standards, and in the best interest of the company and the policyholders, taking into account the interests of stakeholders.
2) The Board should ensure that the Governance principles set for the insurer comply with all relevant laws, regulations and other applicable codes of conduct.
3) The Board should inter-alia set the following policies in consultation with the Management of the insurer:
    (a) Define and periodically review the business strategy.
    (b) Define the underwriting policy of the insurer.
    (c) Determine the retention and reinsurance policy and in particular, the levels of retentions of risk by the insurer and the nature and extent of reinsurance protection to be maintained by the insurer.
    (d) Define the policy of the insurer as regards investment of its assets consistent with an appropriate asset liability management structure.
    (e) Define the insurer's policy on appointments and qualification requirements for human resources and ensure that the incentive structure does not encourage imprudent behaviour.
4) The Board should define and set the following standards:-
    (a) Define the standards of business conduct and ethical behaviour for directors and senior management.
    (c) Define the standards to be maintained in policyholder servicing and in redressal of grievances of policyholders.
5) The Board would be responsible to provide guidance for implementation of business strategy and review the same periodically.
6) As an integral part of proper implementation of the business strategy, the Board should take action as under:-

(a) Establish appropriate systems to regulate the risk appetite and risk profile of the insurer. It will also enable identification and measurement of significant risks to which the insurer is exposed in order to develop an effective risk management system.
(b) Ensure that all directions of Authority are submitted to the Board and the recommendations are implemented as per the Board philosophy.
(c) Ensure that the IT systems in the insurer are appropriate and have built-in checks and balances to produce data with integrity and put in place a business continuity and disaster recovery plan.
(d) Ensure that the insurer has put in place a robust compliance system for all applicable laws and regulations.
(e) Prescribe requirements and frequency of reporting in respect of each of the above areas of responsibility as may be decided by the Board.

7) In discharge of the above and other Governance functions, the Board may delegate the responsibilities to mandated/ other recommended Empowered Committees of Directors while retaining its primary accountability.

8) Conflict of Interest:
(a) The Board shall put in place adequate systems, policies and procedures to address potential conflicts of interest and inter alia ensure compliance with the provisions of the Companies Act.
(b) In an event where it is proposed to enter into a contract or arrangement with related parties, the disclosures by Directors and necessary approvals, as required under the provisions of the Companies Act, read with the relevant rules thereunder, shall be obtained.
(c) The Board shall ensure that Key Management Persons shall not simultaneously hold more than one position in the insurer that could lead to conflict or potential conflicts of interest such as 'business and control function' or 'two control functions'.

9) The Board shall formulate a policy on Related Party Transactions laying down, at a minimum, including the definition of transactions in the ordinary course of insurance business, method of determination of arm's length pricing, list of items requiring approvals under applicable laws and/ or from Audit Committee, Board, Shareholders and any other matter relevant to the Related Party Transactions. The policy shall be reviewed annually by the Board.

10) As part of the Board's internal governance practices, the Board shall consider and adopt appropriate steps and measures towards succession planning through a process of proper identification and nurturing of individuals for taking up directorship and KMP positions of the insurer. The insurer shall adopt a plan in this regard and the Board shall review such succession plan on an annual basis.

11) The Board shall seek detailed and transparent information flow from the KMPs through well documented agenda notes and also devise appropriate systems to serve as effective monitoring arrangements.

12) The Directors are also required to enter into a Deed of Covenant, with the insurer; duly approved by the Board, pursuant to their terms of appointment to ensure that there is a clear understanding of the mutual role of the insurer, the Directors and the Board in Corporate Governance.

1.4. Fit and Proper Criteria for Directors

(a) The maximum age limit for Non-Executive Directors, including the Chairperson of the board, shall be 75 years and after attaining the age of 75 years, no person shall continue on the Board of an insurer.

(b) In cases where the Chairperson/ Non-Executive Director has already attained the age of 75 years as on the date of issue of the Master circular, such insurers shall appoint new incumbent in place of such Chairperson/ Non-Executive Director by 30th June, 2024.

(c) An Independent Director may be appointed for a term of up to five consecutive years on the Board of an insurer, and shall be eligible for re-appointment for the second term on passing of a special resolution by the insurer.

(d) No independent Director shall hold office for more than two consecutive terms. Such independent director shall be eligible for re-appointment only after a cooling-off period of at least three years.

(e) Subject to the statutory approvals required from time to time, the post of the Managing Director (MD), Chief Executive Officer (CEO) or Whole-time Director (WTD) shall not be held by the same incumbent for a continuous period of more than 15 years.
Thereafter, the individual shall be eligible for re-appointment as MD, CEO or WTD in the same insurer, if considered necessary and desirable by the board, after a cooling off period of at least one year, subject to meeting other applicable conditions.

(f) No person shall continue as MD, CEO or WTD with an insurer beyond the age of 70 years. Within the overall limit of 70 years, as part of their internal policy, individual insurer's Boards are free to specify a lower retirement age for the WTDs, including the MD, CEO.

(g) If the MD, CEO or WTD is appointed by a promoter/ major shareholder, then he/she shall not hold the said posts for a continuous period of more than 12 years. However, the Authority may, on an application made to it by the concerned insurer giving substantial reasons for the same, permit such MD, CEO or WTDs to hold office up to 15 years.

(h) A promoter/shareholder cannot hold a whole-time position in the insurer. However, this condition is not applicable in case where an employee becomes a shareholder by virtue of shares received through ESOPs/Public Offering during the course of employment. This condition is also not applicable in case of public sector insurers where the WTD/Chairperson hold shares by virtue of his/her position in the insurer and on behalf of Government of India.

(i) The tenure of the MD/ CEO/ WTD of insurer as on the date of issue of the Master circular shall also be taken into account. If a director has already completed a period of twelve years/ fifteen years as the case may be, on the date of issue of the Master circular, such insurers shall appoint the new incumbent in place of such director(s) by 30th June, 2024.

(j) The Directors of insurers shall be suitable persons who meet the "fit and proper" criteria. The criteria to be satisfied, at a minimum, would relate to integrity demonstrated in personal behaviour and business conduct, soundness of judgment and financial soundness.

(k) The fit and proper requirements seek to ensure that the Director should not have been convicted or come under adverse notice of the laws and regulations involving moral turpitude or of any professional body.

(l) With a view to ensuring that the Directors comply with the above requirement, a due diligence enquiry should be undertaken on the person to be appointed as Director or for the continuance of the existing Directors only after obtaining a declaration from the proposed/existing Directors at the time of their appointment/re-appointment.

1.5. Control Functions

The Insurer shall ensure independence of control functions including compliance, risk, audit, actuarial and secretarial function. Given the risks that an insurer takes in carrying out its operations, and the potential impact it has on its business, it is important that the Board lays down the policy framework to put in place:

- robust and efficient mechanisms for the identification, assessment, quantification, control, mitigation and monitoring of the risks;
- appropriate processes for ensuring compliance with the Board approved policy, and applicable laws and regulations;
- appropriate internal controls to ensure that the risk management and compliance policies are observed;
- an internal audit function capable of reviewing and assessing the adequacy and effectiveness of, and the insurer's adherence to its internal controls as well as reporting on its strategies, policies and procedures; and
- Independence of the control functions, including the risk management function, from business operations demonstrated by a credible reporting arrangement.

The Board shall be responsible for the oversight over the control functions of an Insurer.

For insurers within a group, appropriate and effective group-wide risk control systems should be in place in addition to the control systems at the level of the insurer. It is essential to manage risks appropriately on a group-wide basis as well as at the level of the insurer. The Boards of the respective insurers are required to lay down requisite policy framework to ensure that such risks are adequately addressed.

2. Delegation of Functions- Committees of the Board

With a view to provide adequate time for discharge of the significant corporate responsibilities, the Board can consider setting up of various Committees of Directors by delegating the overall monitoring responsibilities after laying down the roles and responsibilities of these Committees to the Board. However, it is emphasized that the overall responsibility for directing the affairs of the insurers shall be with the Board and it shall continue to exercise its oversight directly on matters that are not specifically delegated to any of its Committees.

In particular, the following aspects need to be defined in respect of the role and functions of the Committees:

- Constitution
- Objectives
- Responsibilities
- Frequency of meeting / quorum requirements
- Appointment and removal of members
- Reporting to the Board

Insurers may establish several Committees to undertake specific functions depending on the size and level of the complexity of the operations. Typically, the Committees that assist the Board are Audit Committee, Risk Management Committee, Nomination and Remuneration Committee, Investment Committee, Ethics Committee and Asset-Liability Management Committee.

2.1. Audit Committee (Mandatory)

- Every Insurer shall constitute an Audit Committee as per Section 177 of the Companies Act, 2013. Currently, the Audit Committee shall comprise minimum of three directors, majority of whom shall be Independent Directors. The Chair of the Board should not be a member of the Audit Committee.
- The Audit Committee shall oversee the financial statements, financial reporting, statement of cash flow and disclosure processes, both on an annual and quarterly basis. It shall set- up procedures and processes to address all concerns relating to adequacy of checks and control mechanisms.
- The Chairperson of the Audit Committee should be an Independent Director of the Board with an accounting/finance/audit experience and may be a Chartered Accountant or a person with a strong financial analysis background. The association of the CEO in the Audit Committee should be limited to occasions where the Audit Committee requires eliciting any specific information concerning audit findings.
- The Audit Committee will oversee the efficient functioning of the internal audit department and review its reports. The Committee will additionally monitor the

progress made in rectification of irregularities and changes in processes wherever deficiencies have come to notice.

- The Audit Committee shall be directly responsible for the recommendation of the appointment, remuneration, performance and oversight of the work of the auditors (including internal / statutory / Concurrent / Secretarial / Forensic / Systems Audit). In case of statutory audit, the independence of the external auditors shall be ensured (although the approval of appointment, remuneration and removal of the statutory auditors shall be done by the shareholders at the general body meeting).
- The Audit Committee shall have the oversight on the procedures and processes established to attend to issues relating to maintenance of books of account, administration procedures, transactions and other matters having a bearing on the financial position of the insurer, whether raised by the auditors or by any other person.
- The Audit Committee shall discuss with the statutory auditors before the audit commences, about the nature and scope of audit as well as have post-audit discussions to address areas of concern.
- The Audit Committee shall act as a “Compliance” Committee to discuss the level of compliance in the insurer and any associated risks and to monitor and report to the Board on any significant compliance breaches.
- The Audit Committee shall have oversight on the overall management costs of the insurer.
- Any additional work other than statutory/internal audit that is entrusted to the auditor or any of its associated persons or companies shall be specifically approved by the Audit Committee keeping in mind the necessity to maintain the independence and integrity of the audit relationship.
- Review and monitor the auditor’s independence and performance and effectiveness of audit process.
- 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 may be prescribed under Rule 6A of the Companies (Meetings of Board and its Powers) Rules, 2014.
- All such other work entrusted to the auditor or its associates shall be specifically disclosed in the Notes to Accounts forming part of the annual accounts of the insurer. However, it may be ensured that insurer comply with Section 144 of the Companies Act, 2013 before deciding to provide any additional work to the Statutory Auditors.

2.2. Investment Committee (Mandatory)

- The Board of every Insurer shall set up an Investment Committee comprising of at least two Non- Executive Directors, the Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Chief Risk Officer and the Appointed Actuary. Any new appointment or removal of any member of the Investment Committee is to be approved by the Board.

- The Committee shall be responsible to recommend and implement an investment policy and lay down the operational framework (Standard Operating Procedures) for the investment operations of the insurer. The investment policy and operational framework should, inter alia, encompass aspects concerning liquidity for smooth operations, compliance with prudential regulatory norms on investments, risk management / mitigation strategies to ensure commensurate yield on investments and above all protection of policyholders' funds.
- Members of the Committee should familiarize themselves and be conversant with the relevant provisions of various Acts, Rules, Regulations, Guidelines, Circulars, etc., issued by the Authority as amended from- time-to-time.
- For assessment of credit risk and market risk, the members of the Committee should not be influenced only by the credit rating. The committee should independently review their investment decisions and ensure that support by the internal due diligence process is an input in making appropriate investment decisions.
- The Committee shall formulate an effective reporting system to ensure compliance with the policy set out by it apart from Internal /Concurrent Audit mechanisms for a sustained and on-going monitoring of Investment Operations.
- The Committee shall meet at least once in a quarter to review investment operations and submit a report to the Board on the performance of the investment portfolio with regard to its safety and soundness.

2.3. Risk Management Committee (Mandatory)

In pursuit of development of a strong risk management system and mitigation strategies, insurers shall set up a separate Risk Management Committee to implement the insurer's Risk Management Strategy.

- The risk management function should be creating awareness in accordance with the Standard operating procedure/policy approved by the committee. the overall guidance and supervision of the Chief Risk Officer (CRO) with a clearly defined role who is able to monitor all the risks across the various lines of business of the insurer. The Chief Risk Officer (CRO) has direct access to the Board.
- The Risk Management Committee shall comprise of at least two non-executive directors, one independent director, the Chief Executive Officer, the Chief Financial Officer, the Appointed Actuary and the CRO. Meetings of the Risk Management Committee shall be chaired by an Independent Director who shall not be chair of the Audit Committee of the Board.
- The Risk Management Committee shall:

- Establish effective Risk Management framework and recommend to the Board the Risk Management policy and processes for the organization.
- Set the risk tolerance limits and assess the cost and benefits associated with risk exposure.
- Review the insurer's risk- reward performance to align with overall policy objectives.
- Discuss and consider best practices in risk management in the market and advise the respective functions.
- Assist the Board in effective operation of the risk management system by performing specialized analyses and quality reviews.
- Maintain an aggregated view on the risk profile of the insurer for all categories of risk including insurance risk, market risk, credit risk, liquidity risk, operational risk, compliance risk, legal risk, reputation risk, etc.
- Advise the Board with regard to risk management decisions in relation to strategic and operational matters such as corporate strategy, mergers and acquisitions and related matters.
- Report to the Board, details on the risk exposures and the actions taken to manage the exposures; review, monitor and challenge where necessary, risks undertaken by the insurer.
- Review the solvency position of the Company on a regular basis.
- Monitor and review regular updates on business continuity.
- Formulation of a Fraud monitoring policy and framework for approval by the Board.
- Monitor implementation of Anti-fraud policy for effective deterrence, prevention, detection and mitigation of frauds.
- Review compliance with the Insurance Fraud Monitoring Framework issued by the Authority relating to risks.

● Asset Liability Management (ALM)

i. ALM is an ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities to achieve an organization's financial objectives, given the organization's risk appetite, risk tolerances and business profile.

ii. ALM lays down the framework to ensure that the insurer invests in a manner which would enable it to meet its cash flow needs and capital requirements at a future date to mitigate liquidity risk and solvency stipulations.

iii. The functions of the Risk Management Committee in respect of ALM shall include:

A. Setting the insurer's risk/reward objectives and assessing policyholder expectations.

B. Quantifying the level of risk exposure (e.g. market, credit and liquidity) and assessing the expected rewards and costs associated with the risk exposure.

C. Formulating and implementing optimal ALM strategies and meeting risk-reward objectives at both product and enterprise level.

D. Ensuring that liabilities are backed by appropriate assets and manage mismatches between assets and liabilities to ensure they remain within acceptable monitored tolerances for liquidity, solvency and the risk profile of the entity.

E. Monitoring risk exposures at periodic intervals and revising ALM strategies where required. Reviewing, approving and monitoring systems, controls and reporting used to manage balance sheet risks including any mitigation strategies.

F. Regular review and monitoring of mismatch between assets and liabilities and the acceptable tolerance limits for mismatch, if any.

G. Ensuring that management and valuation of all assets and liabilities comply with standards, prevailing legislation and internal and external reporting requirements.

H. Submitting the ALM information before the Board at periodic intervals. Annual review of strategic asset allocation.

I. Reviewing key methodologies and assumptions including actuarial assumptions, used to value assets and liabilities.

J. Managing capital requirements at the insurer level using the regulatory solvency requirements.

K. Reviewing, approving and monitoring capital plans and related decisions over capital transactions (e.g. dividend payments, acquisitions, disposals, etc).

2.4. Policyholder Protection, Grievance Redressal and Claims Monitoring Committee (PPGR&CM Committee) (Mandatory)

a) In order to address various compliance issues relating to protection of the interests of policyholders, as also relating to keeping the policyholders well informed of and educated about insurance products and complaint-handling procedures, each insurer shall set up a PPGR&CM Committee which shall ensure compliance with the relevant regulations/guidelines/circulars in this regard to protect the interest of the policyholders.

b) Such Committee shall be headed by an Independent Director and may include an expert/ representative of customers as an invitee to enable insurers formulate policies and assess compliance thereof.

c) The Committee shall recommend a policy on customer education for approval of the Board and ensure proper implementation of the same.

d) The Committee should put in place systems to ensure that policyholders have access to redressal mechanisms and shall establish policies and procedures, for the creation of a dedicated unit to deal with customer complaints and resolve disputes expeditiously.

e) The Committee shall monitor the status of claims on regular basis including claims settled, rejected and outstanding.

f) The functions and responsibilities of the PPGR&CM Committee shall include:-

- Adopt standard operating procedures to treat the customer fairly including time frames for policy and claims servicing parameters and monitoring implementation thereof.
- Establish effective mechanism to address complaints and grievances of policyholders including mis- selling by intermediaries.
- Put in place a framework for review of awards given by Insurance Ombudsman/Consumer Forums.
- Analyze the root cause of customer complaints, identify market conduct issues and advise the management appropriately about rectifying systemic issues, if any.
- Review all the awards given by Insurance Ombudsman/Consumer Forums remaining unimplemented for more than thirty (30) days with reasons therefor and report the same to the Board for initiating remedial action, where necessary.
- Review the measures and take steps to reduce customer complaints at periodic intervals.
- Ensure compliance with the statutory requirements as laid down in the regulatory framework.
- Provide details of grievances at periodic intervals in such formats as may be prescribed by the Authority.
- Ensure that details of insurance ombudsmen are provided to the policyholders.
- Ensure that there is a Grievance Redressal Officer in place who shall be responsible for grievance redressal and whose details are shall be made available at the website.
- Review of Claims Report, including status of Outstanding Claims with ageing of outstanding claims.
- Reviewing Repudiated claims with analysis of reasons.

- Review status of settlement of other customer benefit payouts like Surrenders, Loan, Partial withdrawal requests etc.
- Review the settlement of unclaimed amounts on quarterly basis, including the number and amount of claims. Also, review the steps taken to reduce unclaimed amounts by identifying the policyholders or beneficiaries and creating awareness in accordance with the Standard operating procedure/policy approved by the committee.

g) The Board shall review the status report on policyholders' protection issues, submitted by the Committee, in each of its meeting.

2.5. Nomination and Remuneration Committee (Mandatory)

The Nomination and Remuneration Committee (NRC) shall be constituted in line with the provisions of Section 178 of the Companies Act, 2013 and the Committee shall be chaired by an Independent Director.

i. The NRC shall scrutinize the declarations of intending applicants before the appointment/ reappointment/ election of directors by the shareholders at the General Meetings.

ii. The Committee shall also scrutinize the applications and details submitted by the aspirants for appointment as the Key Management Persons (KMPs). The NRC could also make independent/ discreet references, where necessary, well in time to verify the accuracy of the information furnished by the applicant.

iii. Insurer shall obtain an annual declaration from the Directors/ KMPs that the information provided in the declaration at the time of appointment/ reappointment has not undergone any change subsequently and the changes, if any, are apprised by the concerned Director to the Board.

iv. The Nomination and Remuneration Committee is required to determine on behalf of the Board and on behalf of the shareholders with agreed terms of reference, the insurance company's policy on remuneration packages and any compensation payment, for the CEO, the Executive and Non-Executive Directors, Key Management Persons of the insurer in alignment with the applicable framework.

v. The remuneration packages of the KMPs shall be as per the Remuneration Policy approved by the Board.

vi. The Committee shall also ensure that the proposed appointments/ re-appointments of Key Management Persons or Directors are in conformity with the Board approved policy on retirement/ superannuation.

vii. The Committee shall be responsible for the succession planning of the insurer including in its implementation in a smooth manner.

viii. In case of insurers, where the appointment of Directors and KMPs is governed by the specific acts/rules/regulations/instructions of the Government of India, such insurers shall comply with the same.

2.6. Corporate Social Responsibility Committee ('CSR Committee') (Mandatory)

a. The CSR committee shall be constituted as specified under Section 135 of the Companies Act, as amended from time to time.

b. Further the 'Net Profit' for this purpose shall be as under:-

"Net profit" means the "profit/(loss) before tax" as per its financial statements prepared in accordance with the applicable provisions of the Insurance Act, 1938 and the Regulations framed thereunder, but shall not include the following, namely:

(i) Any profit arising from any overseas branch or branches of the company, whether operated as a separate company or otherwise; and

(ii) any dividend received from other companies in India, which are covered under and complying with the provisions of section 135 of the Companies Act.

Provided that net profit in respect of a financial year for which the relevant financial statements were prepared in accordance with the provisions of the Insurance Act, 1938, shall not be required to be re-calculated in accordance with the provisions of the Companies Act.

c. In line with Section 135(5) of Companies Act, 2013, the Board of Directors of the insurer shall ensure that the insurer spends not less than 2% of the three years' average Net Profits towards the CSR activities.

d. CSR will be based only on the average of the three years' profit as per the Statement of Profit and Loss Account as stated above. If insurer has not completed 3 years from its incorporation, then for the purpose of calculation of average net profit, the profit immediately preceding financial year shall be considered.

e. The CSR Committee shall formulate a CSR policy and get it approved by the Board. The Constitution of CSR Committee shall be as per Companies Act, 2013.

f. The CSR committee shall monitor the "CSR Policy" of the insurer from time to time.

g. The expense incurred on CSR shall not be included for the purpose of calculation of ceilings on Expenses of Management under Section 40B or Section 40C of the Insurance Act, as the case may be.

h. The expenses incurred on CSR activities should not be charged to the Policyholders' Account.

2.7. With Profits Committee (only for Life Insurers)

The Authority has issued IRDAI (Non-Linked Insurance Products) Regulations 2019, which lay down the framework about the With Profit Fund Management and Asset share calculations. The insurers shall comply with the framework and constitute a With Profits Committee comprising of an Independent Director, the CEO, the CFO, Appointed Actuary and an Independent Actuary.

The insurer may add more experts with expertise in the areas of Actuarial, Finance, Investment or any other relevant domain in the With-Profits Committee.

Functions of the With-Profits Committee shall be in accordance with the provisions of Master Circular on Actuarial, Finance and Investment Functions of Insurers.

2.8. Ethics Committee (not mandatory)

Functions and Responsibilities of the Ethics Committee shall include:

A. Monitoring the compliance function and the insurance company's risk profile in respect of compliance with external laws and regulations and internal policies, including its code of ethics or conduct.

B. Receiving reports on the above and on proactive compliance activities aimed at increasing the insurance company's ability to meet its legal and ethical obligations, on identified weaknesses, lapses, breaches or violations and the controls and other measures in place to help detect and address the same.

C. Supervising and monitoring matters reported using the insurer's whistle blowing or other confidential mechanisms for employees and others to report ethical and compliance concerns or potential breaches or violations.

D. Advising the board on the effect of the above on the insurer's conduct of business and helping the board set the correct "tone at the top" by communicating, or supporting the communication, at all levels of the insurer of the importance of ethics and compliance.

E. Approving compliance programmes, reviewing their effectiveness on a regular basis and signing off on any material compliance issues or matters.

F. Ensuring that the board approved Code of Conduct is followed, expectations of operational transparency to stakeholders are met and at the same time maintaining confidentiality of information to foster a culture of good decision-making.

2.9. Meetings, Appointment / Removal of Members and Quorum

(a) The mandatory committees, except Nomination and Remuneration Committee, the Corporate Social Responsibility Committee and the With Profits Committee shall meet at least four times in a year and not more than four months shall elapse between two successive meetings of such Committees.

(b) The quorum shall be two members or one-third of the members of the Committee, whichever is greater. In case independent director(s) is/ are mandated to be in any of the Committees, at least one such independent director or his alternate director, should necessarily be present to form the quorum. However, where the Independent Director is mandated to chair the committee, the meeting cannot be conducted in his absence.

(c) The conditions specified in Section 161(2) of the Companies Act, 2013 shall be applicable even while appointing an alternate director to an Independent director in any of the Committees.

3. Key Managerial Persons

a. Every insurer shall appoint Managing Director/ Chief Executive Officer or Whole-time Director(s), by whatever name called in accordance with the provisions of Section 34A of the Insurance Act.

b. The KMPs shall be appointed by the Board on recommendation of the Nomination and Remuneration Committee.

c. The appointment of Appointed Actuary shall be in accordance with the Insurance Regulatory and Development Authority of India (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024.

d. The insurers shall initiate action for filling up of vacant KMP positions on a priority basis, to ensure that it shall not remain vacant for a continuous period of more than one hundred and eighty days.

e. The insurers shall collect and maintain details of their KMPs in the format specified in the Master Circular.

f. The insurers shall promptly inform the Authority of any appointment or change in the individual person holding the KMP position.

3.1 Responsibilities of KMPs

Responsibilities of Key Management Persons include, but not limited to, the following:

(a) carrying out the day-to-day operations of the insurer effectively and in accordance with the insurer’s corporate culture, business objectives and strategies for achieving those objectives in line with the Insurer's long term interests and viability;

(b) promoting sound risk management, compliance and fair treatment of customers; and

(c) providing the Board adequate and timely information to enable the Board to carry out its duties and functions including the monitoring and review of the performance and risk exposures of the insurer, and the performance of KMPs.

3.2 CEO / Managing Director / Whole-Time Director

(a) The Chief Executive Officer / Whole Time Director/Managing Director of the insurer and other key functionaries are responsible for the operations and day to day management of the insurer in line with the directions of the Board and the Committees setup by the Board.

(b) The Authority expects the CEO to be responsible for the conduct of the insurer’s affairs in a manner which is not detrimental to the interests of the policyholders and which is consistent with the policies and directions of the Board.

(c) The Board should, therefore, carry out effective due diligence to establish that the new incumbent is 'fit and proper' before recommending the name for Authority's approval.

(d) The Insurance Act also prohibits the Managing Director or other Officer of a life insurance company from being a Managing Director or Other Officer of any other Life insurance company or of a Banking company or an Investment Company.

(e) In case the CEO resigns, the Authority should be kept informed of such resignation and the reasons therefor. As the appointment of the CEO is made with the prior approval of the Authority, the Board should take proactive steps to decide on the continuance of CEO well in time before the expiry of his tenure or to identify the new incumbent, in accordance with the succession plan adopted.

(f) The Authority requires the proposal to be submitted with the approval of the Board at least a month before the completion of the tenure of the incumbent.

4. Chief Compliance Officer (CCO)

(a) The insurers must establish a robust compliance culture, an independent corporate compliance function, and a comprehensive compliance risk management program.

(b) This function is led by a Chief Compliance Officer (CCO) chosen through a rigorous process, emphasizing suitability and competence. Insurers must have a board-approved compliance policy, covering areas like compliance culture, risk management, and reporting mechanisms.

(c) The CCO, appointed for a minimum fixed tenure of three years, plays a crucial role in overseeing compliance, with direct reporting lines to the Board/Board Committee.

(d) The CCO, ideally a senior executive with extensive experience in insurance or financial services, must have a deep understanding of industry regulations and risk management.

(e) The compliance function's responsibilities include advising the board and senior management on regulations, conducting compliance risk assessments, adherence to Anti Money Laundering (AML) / Counter Financing of Terrorism (CFT) guidelines and promptly reporting compliance failures. Importantly, the CCO should not have any reporting relationship with business verticals, ensuring independence.

5. External Audit – Appointment of Statutory Auditors

(a) Section 12 of the Insurance Act, 1938 prescribes that all insurers must be audited annually by the Auditors and the Insurers shall comply with the provisions relating to appointment of Auditors as contained in the Companies Act including those contained in this circular.

(b) On recommendation of the Audit Committee, the Board shall appoint the statutory auditors, subject to the shareholders' approval at the general meeting of an Indian insurance company. The remuneration of the auditors shall also be approved by the shareholders in the general meeting.

(c) The Board should ensure that the statutory auditors are compliant with the regulatory requirements and there are no conflicts of interest in their appointment.

(d) The auditors should possess the competence and integrity to alert the appropriate authorities promptly of any event that could seriously affect the insurance company's financial position or the organization structure of its administration or accounting and of any criminal violations or material irregularities that come to his notice.

(e) The Audit Committee should have discussions with the statutory auditors periodically about internal control systems, the scope of audit including the observations of the auditors (where applicable) and review the quarterly/half yearly and annual financial statements as the case may be before submission to the Board of Directors and also ensure compliance with the internal control systems. The statutory auditors should also have access to the Board of Directors through the Audit Committee.

6. Disclosure Requirements

The Board shall ensure that the information on the following, including the basis, methods and assumptions on which the information is prepared and the impact of any changes therein are also disclosed in the annual accounts-

- Quantitative and qualitative information on the insurance company's financial and operating ratios, viz. incurred claim, commission and expenses ratios.
- Actual solvency margin details vis-à-vis the required margin.
- Insurers engaged in life insurance business shall disclose persistency ratio of policies sold by them.
- Financial performance including growth rate and current financial position of the insurance company.
- Description of the risk management architecture.
- Details of number of claims intimated, disposed of and pending with details of duration.
- All pecuniary relationships or transactions of the Non-Executive Directors vis-à-vis the insurance company shall be disclosed in the Annual Report.
- Elements of remuneration package (including incentives) of MD & CEO and all other directors and Key Management Persons.
- Payments made to group entities from the Policyholders Funds.
- Any other matters, which have material impact on the insurer's financial position.

7. Disclosures about Meetings of the Board and its Committees

(a) Insurers shall ensure compliance with the provisions of the Companies Act, 2013 and the Secretarial Standards issued by the ICSI from time to time as regards conduct of the meetings of the Board of Directors and their committees.

(b) In addition to the above, all insurers shall disclose the following in the Director's Report:

   (i) Number of meetings of the Board of Directors and Committees mandated under this Master Circular, in the financial year.

   (ii) Details of the composition of the Board of Directors and Committees mandated, setting out name, qualification, field of specialization, status of directorship held etc.

   (iii) Number of meetings attended by the Directors and members of the Committee.

   (iv) Details of the remuneration paid, if any, to all directors (including Independent Directors).

8. Remuneration

(a) The insurers shall, as part of their Corporate Governance framework, formulate and adopt a comprehensive Board approved remuneration policy in accordance with the framework specified by the Competent Authority for Chairperson of the Board, Non-Executive Directors and Key Management Persons.

(b) The Board shall oversee the effective implementation of remuneration policy which does not induce excessive or inappropriate risk taking, is in line with corporate culture, objectives, strategies, identified risk appetite and long-term interest of the insurer and which gives due regard to the interests of its policyholders and other stakeholders.

(c) The Board shall ensure and document that in structuring, implementing and reviewing the remuneration policy, the decision-making process identifies and manages conflicts of interests. Members of the Board shall not be placed in a position of actual or perceived conflict of interests with respect of remuneration decisions.

The provisions provided hereunder w.r.t. remuneration are applicable for private sector insurers only.

8.1 Remuneration of Non-Executive Directors of Insurers

(i) The total remuneration for each Non-Executive director shall not exceed Rupees Thirty lakh per annum. If the Chairperson of the company is a Non-Executive Director, the remuneration may be proposed by the Board of Directors of the insurer and, the remuneration policy shall specify the details of the remuneration and incentives to be paid to him/ her. The remuneration of the chairperson shall be subject to prior approval by the Authority.

(ii) Non-Executive Directors shall not be eligible for any share-linked benefits. Further, no share-linked benefits shall be offered to Non-Executive Directors even by virtue of their position in any of the group entities.

(iii) In addition to the directors' remuneration mentioned above, the Insurer may pay sitting fees to the non-executive directors and reimburse their expenses for participation in the Board and other meetings, subject to compliance with the provisions of the Companies Act, 2013.

(iv) Insurers shall disclose the amount of remuneration paid to each Non-Executive/ Independent directors, in the Notes to the Accounts forming part of Annual Financial Statements. In case no remuneration is paid during a year, the same shall be specifically disclosed.

8.2 Remuneration of KMPs of Insurers

(i) The remuneration policy in respect of Key Managerial Persons shall cover all aspects of the remuneration structure including Fixed Pay including allowances, perquisites, retirement Benefits, Variable Pay including incentives, bonus, share linked instruments, Joining / Sign on bonus, etc.

(ii) Nomination and Remuneration Committee of the insurer in consultation with the Risk Management Committee shall make a coordinated effort to have an integrated approach to the formulation of the remuneration policy and ensure that the remuneration is adjusted for all types of risk.

(iii) The minimum parameters which shall be taken into account for determination of performance assessment of all KMPs for payment of variable pay or incentives are:

(a) Overall financial soundness such as Net-Worth position, solvency, growth in Assets Under Management, Operating Profit/Net Profit, Embedded Value, Value of New Business including any other indicator that reflects the overall financial soundness;
(b) Compliance with Expenses of Management Regulations;
(c) Claim efficiency in terms of settlement and outstanding;
(d) Improvement in grievance redressal status;
(e) Reduction in Unclaimed Amounts of policyholders;
(f) Persistency- 37th Month to 61st Month (in case of life insurers); Renewal Rate in case of General insurers and Stand Alone Health insurers; and
(g) Overall Compliance status with respect to all applicable laws.

The above parameters from (i) to (vii) shall constitute at least 60% of the total weightage in the performance assessment matrix of MD/CEO/WTDs; and at least 30% of the total weightage in the performance assessment matrix of other KMPs individually. The weightage for each of the parameters may be configured suitably for MD/CEO/WTDs and other KMPs depending on their respective roles. Insurers may define additional parameters also which shall be in line with the business plan of the Insurer.

(iv) The Variable Pay shall be at least 50% of the Fixed Pay for the corresponding period and shall not exceed 300% of the Fixed Pay. Where variable pay is up to 200% of the fixed pay, a minimum of 50% of the variable pay shall be via share-linked instruments. The same limit would be 70%, in case the variable pay is above 200% of the fixed pay.

(v) A minimum of 50% of the total variable pay must invariably be under deferral arrangements and the deferral period shall be a minimum of three years. The first such vesting shall accrue after one year from the commencement of the deferral period. Vesting shall be no faster than on a pro rata basis and shall not take place more frequently than on a yearly basis to ensure a proper assessment of risks before the application of ex-post adjustments. Where variable pay is mix of cash and share linked instruments and such cash component of variable pay is Rupees Twenty-Five lakhs or under, no deferral requirement for the cash component would be necessary.

(vi) In case of an insurer which is not listed, the fair value of the equity shares certified by a Category 1 merchant banker registered with SEBI shall be considered for the purpose of benefit calculations.

(vii) KMPs of insurers shall not be issued/granted any sweat equity shares.

8.3. Malus and Claw-back:

(i) Variable Pay shall be subject to Malus and Claw-back provisions and these provisions shall also form part of the Board approved remuneration policy.

(ii) In case of deferred remuneration, in the event of any negative trend in the defined parameters and/or the relevant line of business in any year during the vesting period, unvested / unpaid portions of deferred variable pay shall be reduced or cancelled as per the assessment. However, while exercising such provisions, due consideration may be given to the actual / realized performance of the insurer.

(iii) A malus arrangement permits the insurer to prevent vesting of all or part of the amount of a deferred remuneration. Malus arrangement does not reverse vesting after it has already occurred. A claw-back, on the other hand, is a contractual agreement between the KMP and the insurer in which the KMP agrees to return previously paid or vested remuneration to the insurer under certain circumstances.

8.4. Guaranteed bonus, Joining / Sign on Bonus and Severance Pay

(a) Guaranteed bonuses are inconsistent with sound risk management or the pay-for performance principles and hence shall not be part of remuneration plan.

(b) Joining / sign on bonus shall only occur in the context of hiring new personnel and be limited to the first year of employment. Such bonus will neither be considered as a part of fixed pay nor as a part of variable pay.

(c) Insurers shall not grant Severance Pay other than accrued benefits like gratuity pension, etc., to Key Managerial Persons except in cases where it is mandatory under any applicable provision of the statute. It is clarified that Severance Pay does not include notice period pay.

8.5 Reporting and Disclosures

The following disclosures are mandated in the notes to the accounts forming part of the Annual Report:

(a) Qualitative disclosure

(i) Information relating to the composition and mandate of the Nomination and Remuneration Committee.

(ii) Information relating to the design and structure of remuneration processes and the key features and objective of remuneration policy.

(iii) Description of the ways in which current and future risks are taken into account in the remuneration processes.

(iv) Description of the ways in which the insurer seeks to link performance during a performance measurement period with levels of remuneration.

(b) Quantitative disclosure

(i) Complete details of remuneration awarded for financial year to MD/CEO/WTD to be disclosed in the note to accounts as per the format provided in the Master Circular.

(ii) The insurers shall ensure compliances as specified in the Companies Act, 2013 and SEBI regulations/guidelines, as applicable.

(c) Accounting, renewal and disclosure of remuneration

(i) The cost of remuneration paid to MD/CEO/WTD/KMPs shall be borne by the respective insurer only. However, in case of deputations from PSU/Foreign Promoters, the cost may be borne by their respective promoters according to their remuneration rules/guidelines.

(ii) In case the Annual Remuneration of MD/CEO/WTD and other KMPs individually exceeds Rupees Four Crore, such excess shall be borne by the shareholders and debited to Profit and Loss Account.

(iii) Liability in the respective books of accounts shall be created in respect of deferred remuneration of the reporting financial year.

(iv) Deferred remuneration pertaining to previous financial years and paid in the reporting financial year shall not be debited to Revenue Account / Profit and Loss

Account as the same shall be adjusted against the liability outstanding in the books of accounts at the beginning of the year.

(v) In case of forfeiture of deferred pay, the corresponding liability outstanding shall be reduced accordingly.

(vi) In case of recovery of earlier paid remuneration, if any, the same shall be credited to Revenue Account / Profit and Loss Account, as the case may be.

(d) Additional information

Following additional information has to be provided to the Authority on annual basis by 30th June of the next financial year. The formats for submission of the information shall be as specified in the Master Circular on Submission of Returns:

(i) Complete details of remuneration awarded for financial year to all KMPs.

(ii) Details of outstanding deferred remuneration of all KMPs at the end of the financial year mentioning name, designation, financial year (remuneration pertaining to), nature of remuneration and the amount outstanding.

(iii) Complete details of reduced / cancelled / recovered remuneration of all KMPs during the year.

9. Interaction with the Authority

Effective corporate governance practices in the office of the insurance company will enable IRDAI to have greater confidence in the work and judgment of its board, Key Management Persons and control functions. In assessing the governance practices in place, the IRDAI would:

- Seek confirmation that the insurance company has adopted and effectively implemented sound corporate governance policies and practices;
- Assess the fitness and propriety of board members;
- Monitor the performance of boards;
- Assess the quality of insurance company's internal reporting, risk management, audit and control functions;
- Evaluate the effects of the insurance company's group structure on the governance strategies;
- Assess the adequacy of governance processes in the area of crisis management and business continuity.

The IRDAI would bring to the attention of the Board and senior management, concerns which have been detected by it through supervisory activities.

10. Reporting to Authority

(a) All insurers are required to file are report on status of compliance with the Master Circular on an annual basis, within 3 months from the end of the financial year, i.e., before 30th June. The format for reporting status of compliance shall be as specified in the Master Circular on Submission of Returns.

(b) Annual Report of insurers shall have a separate certification from the Chief Compliance Officer.

11. Whistle Blower Policy

Insurers shall put in place a "whistle blower" policy, where-by mechanisms exist for employees to raise concerns internally about possible irregularities, governance weaknesses, financial reporting issues or other such matters. These could include employee reporting in confidence directly to the Chairperson of the Board or of a Committee of the Board or to the Statutory Auditor.

The Whistle-blower Policy shall inter alia cover the following aspects :

- Awareness of the employees that such channels are available, how to use them and how their report will be handled.
- Handling of the reports received confidentially, for independent assessment, investigation and where necessary for taking appropriate follow-up actions.
- A robust anti-retaliation policy to protect employees who make reports in good faith.
- Briefing of the board of directors.

The Appointed Actuary and the statutory / internal auditors have the duty to 'whistle blow', i.e., to report in a timely manner to the IRDAI if they are aware that the insurance company has failed to take appropriate steps to rectify a matter which has a material adverse effect on its financial condition. This would enable the Authority to take prompt action before policy holders' interests are undermined.

Lesson 3

Board Effectiveness/Building Better Boards

Indicative definition of Independent Director by International Financial Corporation

"Independent Director" means a Director who has no direct or indirect material relationship with the Company other than membership on the Board and who:

1. is not and has not been employed by the Company or its Affiliates in the past five years;
2. does not have, and has not had in the past five years, a business relationship with the Company or its Affiliates (either directly or as a partner, shareholder (other than to the extent to which shares are held by such Director pursuant to a requirement of Applicable Law in the Country relating to directors generally), and is not a director, officer or senior employee of a Person that has or had such a relationship);
3. is not affiliated with a non-profit organization that receives significant funding from the Company or its Affiliates;
4. does not receive and has not received in the past five years, any additional remuneration from the Company or its Affiliates other than his or her director's fee and such director's fee does not constitute a significant portion of his or her annual income;
5. does not participate in any share option scheme/plan or pension scheme/plan of the Company or any of its Affiliates;
6. is not employed as an executive of another company where any of the Company's executives serve on that company's board of directors;
7. does not hold a material interest in the Company or its Affiliates (either directly or as a partner, shareholder, director, officer or senior employee of a Person that holds such an interest);
8. is not, nor has been at any time during the past five years, affiliated with or employed by a present or former auditor of the Company or any of its Affiliates;
9. is not a member of the immediate family (and is not the executor, administrator or personal representative of any such Person who is deceased or legally incompetent) of any individual who would not meet any of the tests set out in (1) to (8) (were he or she is a director of the Company);
10. is identified in the annual report of the Company distributed to the shareholders of the Company as an independent director; and

11. has not served on the Board for more than ten years.

For purposes of this definition, "material interest" shall mean a direct or indirect ownership of voting shares representing at least two percent (2%) of the outstanding voting power or equity of the Company or any of its Affiliates.

Meaning of Related Party

Under Companies Act, 2013

In terms of Section 2(*76*) "related party", with reference to a company, means—

(i) a director or his relative;

(ii) a key managerial personnel or his relative;

(iii) a firm, in which a director, manager or his relative is a partner;

(iv) a private company in which a director or manager or his relative is a member or director;

(v) a public company in which a director or manager is a director and holds along with his relatives, more than two per cent. of its paid-up share capital;

(vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;

(vii) any person on whose advice, directions or instructions a director or manager is accustomed to act:

Provided that nothing in sub-clauses (*vi*) and (*vii*) shall apply to the advice, directions or instructions given in a professional capacity;

(viii) any body corporate which is–

(A) a holding, subsidiary or an associate company of such company; or

(B) a subsidiary of a holding company to which it is also a subsidiary; or

(C) an investing company or the venturer of the company;

Explanation.– For the purpose of this clause, "the investing company or the venturer of a company" means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.

(ix) a director other than an independent director or key managerial personnel of the holding company or his relative with reference to a company.

Under SEBI (LODR) Regulations, 2015

In terms of Regulation 2(1)(zb), "related party" means a related party as defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the applicable accounting standards:

Provided that:

(a) any person or entity forming a part of the promoter or promoter group of the listed entity; or

(b) any person or any entity, holding equity shares:

  (i) of twenty per cent or more; or

  (ii) of ten per cent or more, with effect from April 1, 2023;

in the listed entity either directly or on a beneficial interest basis as provided under section 89 of the Companies Act, 2013, at any time, during the immediate preceding financial year;

shall be deemed to be a related party:

Provided further that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s).

Meaning of Related Party Transaction

In terms of Regulation 2(1)(zc) of the SEBI (LODR) Regulations, 2015, a "related party transaction" means a transaction involving a transfer of resources, services or obligations between:

(i) a listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand; or

(ii) a listed entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the listed entity or any of its subsidiaries, with effect from April 1, 2023;

regardless of whether a price is charged and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract:

Provided that the following shall not be a related party transaction:

(a) the issue of specified securities on a preferential basis, subject to compliance of the requirements under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;

(b) the following corporate actions which are uniformly applicable/offered to all shareholders in proportion to their shareholding:

  i. payment of dividend;

ii. subdivision or consolidation of securities;

iii. issuance of securities by way of a rights issue or a bonus issue; and

iv. buy-back of securities.

(c) acceptance of fixed deposits by banks/Non-Banking Finance Companies at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same along with the disclosure of related party transactions every six months to the stock exchange(s), in the format as specified by the Board.

(d) acceptance of current account deposits and saving account deposits by banks in compliance with the directions issued by the Reserve Bank of India or any other central bank in the relevant jurisdiction from time to time.

(e) Explanation: For the purpose of clauses (c) and (d) above, acceptance of deposits includes payment of interest thereon.

(f) retail purchases from any listed entity or its subsidiary by the directors or key managerial personnel of the listed entity or its subsidiary, and relatives of such directors or key managerial personnel, without establishing a business relationship and at the terms which are uniformly applicable/offered to all employees, directors, key managerial personnel and relatives of directors or key managerial personnel:

Provided further that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s).

Meaning of unpublished price sensitive information - Regulations 2(1)(n)

"Unpublished price sensitive information", means any information, relating to a company or its securities, directly or indirectly, that is not generally available which upon becoming generally available, is likely to materially affect the price of the securities and shall, ordinarily including but not restricted to, information relating to the following:–

(i) financial results;

(ii) dividends;

(iii) change in capital structure;

(iv) mergers, de-mergers, acquisitions, delistings, disposals and expansion of business, award or termination of order/contracts not in the normal course of business and such other transactions;

(v) changes in key managerial personnel, other than due to superannuation or end of term, and resignation of a Statutory Auditor or Secretarial Auditor;

(vi) change in rating(s), other than ESG rating(s);

(vii) fund raising proposed to be undertaken;

(viii) agreements, by whatever name called, which may impact the management or control of the company;

(ix) fraud or defaults by the company, its promoter, director, key managerial personnel, or subsidiary or arrest of key managerial personnel, promoter or director of the company, whether occurred within India or abroad;

(x) resolution plan/ restructuring or one-time settlement in relation to loans/borrowings from banks/financial institutions;

(xi) admission of winding-up petition filed by any party /creditors and admission of application by the Tribunal filed by the corporate applicant or financial creditors for initiation of corporate insolvency resolution process against the company as a corporate debtor, approval of resolution plan or rejection thereof under the Insolvency and Bankruptcy Code, 2016;

(xii) initiation of forensic audit, by whatever name called, by the company or any other entity for detecting mis-statement in financials, misappropriation/ siphoning or diversion of funds and receipt of final forensic audit report;

(xiii) action(s) initiated or orders passed within India or abroad, by any regulatory, statutory, enforcement authority or judicial body against the company or its directors, key managerial personnel, promoter or subsidiary, in relation to the company;

(xiv) outcome of any litigation(s) or dispute(s) which may have an impact on the company;

(xv) giving of guarantees or indemnity or becoming a surety, by whatever named called, for any third party, by the company not in the normal course of business;

(xvi) granting, withdrawal, surrender, cancellation or suspension of key licenses or regulatory approvals.

Explanation 1 - For the purpose of sub-clause (ix):

a. 'Fraud' shall have the same meaning as referred to in Regulation 2(1)(c) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.
b. 'Default' shall have the same meaning as referred to in Clause 6 of paragraph A of Part A of Schedule III of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Explanation 2 - For identification of events enumerated in this clause as unpublished price sensitive information, the guidelines for materiality referred at paragraph A of Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 as may be specified by the Board from time to time and materiality as referred at paragraph B of Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 shall be applicable.

Trading Plans – Regulation 5

(1) An insider shall be entitled to formulate a trading plan and present it to the compliance officer for approval and public disclosure pursuant to which trades may be carried out on his behalf in accordance with such plan.

(2) Such trading plan shall:–

(i) not entail commencement of trading on behalf of the insider earlier than one hundred and twenty calendar days from the public disclosure of the plan;

(ii) not entail overlap of any period for which another trading plan is already in existence;

(iii) set out following parameters for each trade to be executed:

a. either the value of trade to be effected or the number of securities to be traded;

b. nature of the trade;

c. either specific date or time period not exceeding five consecutive trading days;
d. price limit, that is an upper price limit for a buy trade and a lower price limit for a sell trade, subject to the range as specified below:
i. for a buy trade: the upper price limit shall be between the closing price on the day before submission of the trading plan and upto twenty per cent higher than such closing price;
ii. for a sell trade: the lower price limit shall be between the closing price on the day before submission of the trading plan and upto twenty per cent lower than such closing price.

Explanation:

(i) While the parameters in sub-clauses (i), (ii) and (iii) shall be mandatorily mentioned for each trade, the parameter in sub-clause (iv) shall be optional.
(ii) The price limit in sub-clause (iv) shall be rounded off to the nearest numeral.
(iii) Insider may make adjustments, with the approval of the compliance officer, in the number of securities and price limit in the event of corporate actions related to bonus issue and stock split occurring after the approval of trading plan and the same shall be notified on the stock exchanges on which securities are listed.

(iv) not entail trading in securities for market abuse.

(3) The compliance officer shall review the trading plan to assess whether the plan would have any potential for violation of these regulations and shall be entitled to seek such express undertakings as may be necessary to enable such assessment and to approve

and monitor the implementation of the plan.

Provided that pre-clearance of trades shall not be required for a trade executed as per an approved trading plan. Provided further that trading window norms shall not be applicable for trades carried out in accordance with an approved trading plan.

(4) The trading plan once approved shall be irrevocable and the insider shall mandatorily have to implement the plan, without being entitled to either execute any trade in the securities outside the scope of the trading plan or to deviate from it except due to permanent incapacity or bankruptcy or operation of law. Provided that the implementation of the trading plan shall not be commenced if any unpublished price sensitive information in possession of the insider at the time of formulation of the plan has not become generally available at the time of the commencement of implementation.

Provided further that if the insider has set a price limit for a trade under sub-clause (iv) of clause (v) of sub-regulation 2, the insider shall execute the trade only if the execution price of the security is within such limit. If price of the security is outside the price limit set by the insider, the trade shall not be executed. Explanation: In case of non-implementation (full/partial) of trading plan due to either reasons enumerated in sub-regulation 4 or failure of execution of trade due to inadequate liquidity in the scrip, the following procedure shall be adopted:

(i) The insider shall intimate non-implementation (full/partial) of trading plan to the compliance officer within two trading days of end of tenure of the trading plan with reasons thereof and supporting documents, if any.

(ii) Upon receipt of information from the insider, the compliance officer, shall place such information along with his recommendation to accept or reject the submissions of the insider, before the Audit Committee in the immediate next meeting. The Audit Committee shall decide whether such non-implementation (full/partial) was bona fide or not.

(iii) The decision of the Audit Committee shall be notified by the compliance officer on the same day to the stock exchanges on which the securities are listed.

(iv) In case the Audit Committee does not accept the submissions made by the insider, then the compliance officer shall take action as per the Code of Conduct.

(5) The compliance officer shall approve or reject the trading plan within two trading days of receipt of the trading plan and notify the approved plan to the stock exchanges on which the securities are listed, on the day of approval.

Lesson 13

Environment

ENVIRONMENTAL IMPACT ASSESSMENT

Environmental Impact Assessment (EIA) is a systematic, preventive process that evaluates the potential environmental, social, and economic consequences of proposed projects, policies, or developments before they are approved.

The EIA Notification 2006 anchored by the Environment Protection Act, 1986 provides the primary legal foundation, defining project categories, clearance procedures, and mandatory requirements for environmental assessment. The EIA process and public consultation framework follow a systematic seven-stage approach designed to ensure comprehensive environmental assessment including Screening, Scoping/Terms of Reference, EIA Study Preparation, Public Consultation, Appraisal, Decision and EC Issuance.

Further, the 2025 Environmental Impact Assessment (EIA) regulations, anchored by amendments to the 2006 notification and new Environment Audit Rules, 2025, focus on strengthening compliance, mandatory digital transparency via PARIVESH 2.0, and stricter oversight of linear projects. The key 2025 reforms include third-party audits, removal of exemptions for certain construction activities, and enhanced, tech-driven monitoring of environmental conditions.

WAY FORWARD- INDIA'S ENVIRONMENTAL IMPROVEMENT SCENARIO

At COP26 in Glasgow, India launched LiFE (Lifestyle for Environment), encouraging sustainable habits and promoting mindful consumption over wasteful use and also introduced the Panchamrit, the following five key targets for climate action:

- 500 GW Non-Fossil Energy: Reach 500 GW of non-fossil energy capacity by 2030.
- 50% Renewable Energy: Meet 50% of energy requirements from renewable energy by 2030.
- 1 Billion Tonnes Emission Reduction: Reduce total projected carbon emissions by one billion tonnes from 2021-2030.
- 45% Carbon Intensity Reduction: Reduce the carbon intensity of the economy by 45% by 2030, compared to 2005 levels.
- Net-Zero by 2070: Achieve the target of net-zero emissions by 2070.

Further, India has also set a target of achieving 140 GW of wind power capacity by 2030 and 100 GW nuclear power capacity by 2047.

India is paving the path towards a sustainable future through bold clean energy initiatives focused on solar power and green hydrogen which include the following:

- Launch of International Solar Alliance (ISA) in 2015, a global platform promoting solar energy for energy access and climate action, that aims to mobilize $1 trillion in solar investments by 2030.
- Launch of National Green Hydrogen Mission in 2023, that aims to make India a global hub for green hydrogen production and export with the target 5 MMT annual capacity by 2030, with over ₹8 lakh crore in investments, creation of 6 lakh jobs and reduced fossil fuel dependence.
- PM-KUSUM (Pradhan Mantri Kisan Urja Suraksha evam Utthaan Mahabhiyan) Scheme that promotes solar energy in agriculture by supporting solar-powered irrigation systems with the target of solarisation of 49 lakh agricultural pumps in coming years, ensuring reliable energy for farmers and reducing carbon emissions.

The Environment Audit Rules, 2025

The Environment Audit Rules, 2025 were notified on 29th August, 2025 for certification and registration of environmental auditor for ascertaining environmental compliance of the projects, activities or processes prescribed under various environmental regulations and rules or under any other Act or rules or regulations pertaining to Environment, Forest and Climate Change. The rules inter-alia consists of the following:

Important Definitions

a. **“Environment audit”** means a systematic audit, verification, examination, inspection, or analysis of any project, activity or process having a bearing on the environment, and undertaken by the Registered Environment Auditor.
b. **“Environment Audit Designated Agency"** means the agency or agencies, as notified by the Central Government from time to time, responsible for overall management of the Environment Audit including drawing up eligibility criteria, conducting examination for the certification, registration of Certified Environment Auditors, monitoring of their performance, trainings and capacity building.
c. **“Green approvals”** means any approval, clearance, authorisation, licence, or permission granted under the Environment (Protection) Act, 1986, the Air (Prevention and Control of Pollution) Act, 1981, the Water (Prevention and Control of Pollution) Act, 1974, the Van (Sanrakshan Evam Samvardhan) Adhiniyam, 1980, the Wild Life (Protection) Act, 1972 or under any other applicable rules, regulations, notifications, or orders issued by the Central Government or any State Government from time to time.
d. **“Registered Environment Auditor”** means a certified environment auditor or a firm or a body corporate comprising two or more certified environment auditors, who meet the criteria for registration as specified in the guidelines and are registered by Environment Audit Designated Agency for undertaking environment audits and

for performing such other functions as may be prescribed by the Central Government from time to time.

Roles and responsibilities of Registered Environment Auditors

The roles and responsibilities of Registered Environment Auditors include, but is not limited to the following:

i. undertaking environment audits of projects, activities, or processes governed by applicable environmental laws and regulations;
ii. conducting sampling and analysis of emissions, effluents, wastes, and evaluating the effectiveness of pollution control and waste management systems installed;
iii. reporting any violations or non-compliance of applicable environmental regulations related to the project, process, or activity, as the case may be;
iv. computing environment compensation for non-compliance and violations, wherever required by the competent authority;
v. preparing and submitting environment audit reports in accordance with extant regulations and guidelines;
vi. carrying out verification activities related to the Green Credit Registry established under rule 10 of the Green Credit Rules, 2023 as a 'designated agency,' if authorised by the 'Administrator' under the said rules;
vii. to undertake environment audit assigned by the Central Pollution Control Board, either directly or through a designated agency, or by the State Pollution Control Board or the Pollution Control Committee, including under the Extended Producer Responsibility framework as prescribed in the rules notified under the Environment (Protection) Act, 1986;
viii. to undertake environment audit, as assigned by the competent authority, under the provisions of the Ecomark Rules, 2024;
ix. to undertake environment audit as assigned by the Competent Authority under Environment Impact Assessment Notification, 2006, Coastal Regulation Zone (CRZ) Notification, 2011, and Coastal Regulation Zone (CRZ) Notification, 2019;
x. to undertake, upon assignment by the project proponent, environment audits of projects, activities, or processes governed under extant environmental laws, rules, regulations, notifications and orders;
xi. verifying self-compliance reports submitted by projects, activities, or processes to ensure adherence to prescribed environmental regulations, standards and conditions.

Roles and responsibilities of the Environment Audit Designated Agency (EADA)

The roles and responsibilities of the Environment Audit Designated Agency include the following:

i. specifying minimum eligibility criteria for Certified Environment Auditors;
ii. developing screening methodologies, which may include conducting examinations and/or other processes to identify qualified candidates for their certification as Certified Environment Auditor;

iii. certifying environment auditors including renewal, suspension, withdrawal, or cancellation of such certifications;
iv. specifying the criteria for registration of the Certified Environment Auditor;
v. registration of the Certified Environment Auditor including renewal, suspension, withdrawal, or cancellation of such registrations;
vi. monitoring the performance of Registered Environment Auditor and issuing directions as necessary.

Mechanism for Certification

The certification of environment auditors shall be carried out by the Environment Audit Designate Agency through the following two modes:-

i. Recognition of Prior Learning (RPL): A mode of certification based on prior experience and expertise, which shall remain in operation for a limited period as may be specified by the Central Government;
ii. National Certification Examination (NCE): A structured examination process for assessing eligibility for certification.

Conflict of Interest

In order to ensure independence and prevent any conflict of interest, Registered Environment Auditor undertaking audits shall not—

i. be related to any owner, operator, occupier, or project proponent of the relevant project, process, or activity. Such relationships include, but are not limited to, employer, business partner, employee, contractual associate outside the audit, spouse, partner, sibling, parent, or child;
ii. have or have had any pecuniary interest in the relevant project, process, or activity of the auditee, or in its holding, subsidiary, or associated company. This includes any situation where there is a reasonable likelihood or expectation of financial gain for the auditor or any related person;
iii. have provided services (other than independent reviews or auditing) to the project, process, or activity such that they would be auditing work performed by themselves or their firm;
iv. accept any inducement, commission, gift, or other benefit from the auditee, their employees, or any interested party, nor knowingly permit colleagues to do so;
v. jointly or severally undertake the environment audit of any auditee for whom the Registered Environment Auditor has prepared the Environmental Impact Assessment, Environmental Management Plan (EMP), or submitted any other report that forms part of the subject matter of the Environment Audit.

Lesson 14

Corporate Social Responsibility

Entities are eligible to act as an Implementing Agency for undertaking CSR Activities

Rule 4(1) of the Companies (CSR Policy) Rules, 2014 provides the eligible entities which can act as an implementing agency for undertaking CSR activities. These are:

(i) Entity established by the company itself or along with any other company – a company established under section 8 of the Act, or a registered public trust or a registered society, exempted under sub-clauses (iv), (v), (vi) or (via) of clause (23C) of section 10 or, registered under section 12A and approved under Section 80G of the Income Tax Act, 1961.

(ii) Entity established by the Central Government or State Government – a company established under section 8 of the Act, or a registered trust or a registered society, established by the Central Government or State Government.

(iii) Statutory bodies – any entity established under an Act of Parliament or a State legislature.

(iv) Other bodies – a company established under section 8 of the Act, or a registered public trust or a registered society, exempted under sub-clauses (iv), (v), (vi) or (via) of clause (23C) of section 10 or, registered under section 12A and approved under Section 80G of the Income Tax Act, 1961, and having an established track record of at least three years in undertaking similar activities.

Implementation of Corporate Social Responsibility (CSR) through zero coupon zero principal instrument – Rule 4A

i. A company may carry out Corporate Social Responsibility activities through a zero coupon zero principal instrument where the expenditure incurred for such instrument shall not exceed ten percent of the total Corporate Social Responsibility expenditure of such company for that financial year.
ii. The company that has subscribed in a zero coupon zero principal instrument shall be exempted from undertaking impact assessment of any project funded by such an instrument.
iii. The Not for Profit Organisation issuing the zero coupon zero principal instrument and raising fund therefrom shall –
    (a) undertake a project with a duration not more than three succeeding financial years from the issue of such zero coupon zero principal instrument; and

(b) on termination of listing of such zero coupon zero principal instrument, transfer the unspent amount to any fund included in Schedule VII to the Act and submit its compliance report to the Securities Exchange Board of India.

iv. The provisions of rule 4, except sub-rules (5) and (6) of Companies (Corporate Social Responsibility Policy) Rules, 2014 shall be applicable to the implementation of Corporate Social Responsibility through a zero coupon zero principal instrument.

1. Rule 2(1)(l): "zero coupon zero principal instrument" means an instrument declared as a security that is issued by a Not for Profit Organization registered with the Social Stock Exchange segment of a recognised Stock Exchange in accordance with the regulations made by the Securities and Exchange Board of India.

2. Rule 2(1)(ha): "Not for Profit Organization" has the same meaning as in clause (e) of regulation 292A of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.

Activities which may be included by companies in their CSR Policies Activities – Schedule VII

……………

(xiii) Subscription to zero coupon zero principal instruments on social stock exchange.

Lesson 15

Green Initiatives

Regulatory framework for Waste Management:

India's waste management regulatory framework operates under the umbrella of the Environment (Protection) Act, 1986. The framework is categorized by specific waste streams, heavily integrating the principles of Circular Economy and Extended Producer Responsibility (EPR), which requires manufacturers to manage products across their entire life cycle. The legal architecture is primarily managed by the Ministry of Environment, Forest and Climate Change (MoEFCC) and implemented nationally by the Central Pollution Control Board (CPCB) along with State Pollution Control Boards.

Solid Waste Management (SWM) Rules, 2026:

The Solid Waste Management (SWM) Rules, 2026, superseding the Solid Waste Management Rules, 2016, have been notified under the Environment (Protection) Act, 1986 effective from April 1, 2026. As per the Act, the solid waste management by local authorities, in their respective jurisdiction, shall inter alia include environmentally sound management of solid waste such as dry waste, wet waste, special care waste, sanitary waste, horticultural waste as well as of sanitary landfill management and existing or legacy waste dumpsite remediation. The salient features of the Act include:

- Four-stream segregation of solid waste at source into wet waste, dry waste, sanitary waste and special care waste.
- The Bulk Waste Generators must ensure that the waste generated by them is collected, transported and processed in an environmentally sound manner.
- **Extended Bulk Waste Generator Responsibility (EBWGR),** under which bulk waste generators are required to process wet waste on-site as far as possible or obtain an EBWGR certificate where on-site processing is not feasible. This framework aims to strengthen waste management practices, as bulk waste generators account for nearly 30 per cent of total solid waste generation.
- Graded criteria for development around solid waste processing and disposal facilities to facilitate faster land allocation.
- Development of a **Centralised Online Portal** to track all stages of solid waste management, including waste generation, collection, transportation, processing and disposal, as well as biomining and bioremediation of legacy waste dump sites.
- Refuse Derived Fuel (RDF), the fuel produced by shredding and dehydrating municipal solid waste with high calorific value, primarily consisting of non-recyclable plastic, paper and textiles. Industrial units, including **cement plants and waste-to-energy plants** that currently use solid fuel, have been mandated to replace it with

RDF. The fuel substitution rate will increase from the current 5 per cent to 15 per cent over a six-year period.

- Landfills have been strictly restricted to **non-recyclable, non-energy recoverable waste and inert material**. Higher **landfill fees** have been prescribed for local bodies for sending unsegregated waste to sanitary landfills.
- Solid waste management in hilly areas and islands includes the levy of **user fees on tourists and regulation of tourist inflow by local bodies based on available waste management facilities**.

Plastic Waste Management (PWM) Rules, 2016:

The Plastic Waste Management Rules, 2016 under the Environment (Protection) Act, 1986, last amended in March 2026, aims to reduce the generation of plastic waste, ensure environmentally sound management of plastic waste, promote recycling, reuse, and recovery of plastic materials, and encourage sustainable alternatives to plastic products. The salient features of the rules include:

- Extended Producer Responsibility (EPR): Under EPR, producers, importers, and brand owners (PIBOs) are responsible for collecting and processing the plastic waste generated from the products they introduce into the market. The Central Pollution Control Board (CPCB) monitors compliance through an online EPR portal.
- Classification of Plastic Packaging into 4 categories viz., Rigid plastic packaging, Flexible plastic packaging, Multi-layered plastic packaging and Compostable plastic sheets and carry bags.
- Ban on Single-Use Plastics such as Plastic straws, Plastic cutlery, Plastic sticks for balloons, Earbuds with plastic sticks, Polystyrene decorative materials, and Plastic flags.
- The concept of recycling includes energy recovery methods such as Waste-to-energy, Waste-to-oil, Co-processing in cement kilns and Road construction applications.
- Registered Environment Auditors for verification of EPR compliance, Recycled content usage and Annual reporting accuracy.

E-Waste (Management) Rules, 2022

The E-Waste (Management) Rules, 2022 were notified in November, 2022, effective from 1st April, 2023, intend to manage e-waste in an environmentally sound manner and put in place an improved Extended Producer Responsibility (EPR) regime for e-waste recycling wherein all the manufacturer, producer, refurbisher and recycler are required to register on portal developed by CPCB. The rules facilitate and channelize the informal sector to formal sector for doing business and ensure recycling of E-waste with provisions for environmental compensation and verification & audit. The salient features of the framework include:

- Online E-Waste EPR portal wherein entities such as producers, manufacturers, recyclers and refurbishers of the e-waste are required to be registered.

- Guidelines for the scientific and environmentally sound management of e-waste that provide in detail the procedures and facilities in terms of machineries and pollution control devices required for the recycling of e-waste.
- The registered entities submit their compliance through Quarterly and Annual Returns on the E-waste Portal.
- Verification and audit by the Central Pollution Control Board or through a designated agency, to verify compliance of these Rules through random inspection and periodic audit, as deemed appropriate, so as to take action against violations of these Rules.

Battery Waste Management Rules, 2022

The Battery Waste Management Rules, 2022 were notified on August 24, 2022 by the Ministry of Environment, Forestry and Climate Change (MoEFCC). The rules cover all types of batteries, viz. Electric Vehicle batteries, portable batteries, automotive batteries and industrial batteries and function based on the concept of Extended Producer Responsibility (EPR) where the producers (including importers) of batteries are responsible for collection and recycling/refurbishment of waste batteries and use of recovered materials from wastes into new batteries. The rules enable setting up a mechanism and centralized online portal for exchange of EPR certificates between producers and recyclers/refurbishers to fulfil the obligations of producers. Mandating the minimum percentage of recovery of materials from waste batteries under the rules brings new technologies and investment in recycling and refurbishment industry and create new business opportunities.

Online registration & reporting, auditing, and committee for monitoring the implementation of rules and to take measures required for removal of difficulties are salient features of rules for ensuring effective implementation and compliance. On the principle of Polluter Pays Principle, environmental compensation will be imposed for non-fulfilment of Extended Producer Responsibility targets, responsibilities and obligations set out in the rules. The funds collected under environmental compensation shall be utilised in collection and refurbishing or recycling of uncollected and non-recycled waste batteries.

Hazardous and Other Wastes (Management and Transboundary Movement) (HOWM) Rules, 2016

The Hazardous and Other Wastes (Management and Transboundary Movement) (HOWM) Rules, 2016 ensure safe storage, treatment and disposal of hazardous wastes in an environmentally sound manner without causing adverse effect to environment and human health. Built on the principle of Extended Producer Responsibility (EPR), the rules require producers to collect, recycle, or refurbish used batteries, strictly prohibiting them from being sent to landfills or incinerated.

Any occupier generating hazardous waste must take full responsibility for its safe and environmentally sound management where key duties include Pollution prevention and waste minimization, Proper labelling and storage, Record-keeping and annual returns and providing proper information to transporters.

The Treatment, storage, and disposal facility (TSDF) operators must design and run their facilities in accordance with technical guidelines issued by the Central Pollution Control Board (CPCB). They must obtain authorisation from the SPCB, maintain records, and ensure that waste accepted for disposal comes only from authorised sources.

To ensure accountability, the rules enforce strict documentation and tracking. Penalties—such as environmental compensation based on the "polluter pays" principle—are levied against entities that fail to meet their EPR targets or illegally dispose of battery waste.

Lesson 16

Governance Influencers

The SEBI's Operational Guidelines (Investors' associations), 2019 are mentioned briefly as under:

1. **Consideration of Application:**

a. The applicant shall be an organisation in existence for a minimum period of two years and registered as:-

   i. A Trust under Indian Trusts Act, 1882 or any other relevant Act governing the Trusts in India. OR

   ii. A Society registered under Societies Registration Act, 1860 or any other relevant Act governing the Societies in India. OR

   iii. A company incorporated under the Companies Act, 2013.

b. The primary objective establishment shall be offering bona fide protection of interests of the investors / consumers and other allied services.

c. The governing body of applicant shall have minimum two trustees in case of trusts, two governing members in case of society, two directors in case of company, as the case may be, with at least five years of experience of working in securities market or financial market preferably in the area of investor education and awareness and providing assistance on redressal of their grievances.

d. In case the applicant organisation is promoted by a single person such as a one person company (OPC) registered under Companies Act, 2013 etc., apart from the promoter, the applicant shall have at least two key managerial personnel with at least five years of experience of working in securities market or financial market preferably in the area of investor education and financial awareness and providing assistance on redressal of their grievances.

2. **Membership**

a. The Association shall have a minimum of 100 members.

b. The eligible members of the Association shall be

   i. individual shareholders

   ii. non profit organizations

   iii. Provided that the Association shall discontinue the membership granted to any body corporate or institution within three months of obtaining recognition.

3. **Management & Governance**

a. The Association shall have rules, regulations and /or bye-laws for the governance and management of the Association.

b. The rules, regulations and or bye-laws of the Association shall be in conformity with the conditions for recognition.

c. The applicant, promoters /settler of the applicant, members of its governing body viz. trustees in case of trusts, governing members in case of society, directors in case of company, as the case may be, and its key managerial personnel shall not be registered as an intermediary with SEBI or associated with any of the intermediaries registered with SEBI by way of full time employment.

Lesson 18

Risk Management

Risk Monitoring and Review

Since risk management is an ongoing process, it requires continuously tracking the identified risks and reviewing the effectiveness of various risk management measures. Risk monitoring and review ensures that risk levels remain within acceptable ranges and that any changes in circumstances are accounted for promptly.

Risk monitoring focuses on observing risks regularly, while risk review involves assessing whether the existing risk management plans and controls are working properly. Since business environments and project conditions change over time, continuous monitoring and review are necessary to maintain safety, efficiency, and stability.

This step helps in identifying issues before they become serious, reduces disruptions and operational failures, and protects people, assets, and information.

RISK MITIGATION

Risk mitigation is the process of planning and implementing strategies to minimize the likelihood and negative impact of potential threats. Rather than eliminating every danger, it aims to reduce risks to a tolerable level so your business, project, or organization can continue to operate and recover quickly.

Risk mitigation involves Avoidance, Reduction, Transfer, and Acceptance of risks, which can lessen the seriousness of the effects of the risk, lessen the likelihood that the risk will materialise, or lessen the exposure of the organisation to the risk. The risk mitigation stage entails creating plans for managing, removing, or reducing risk to a manageable level.

The Strategies for Risk Mitigation includes the following:

- Preventive Measures – Actions taken to stop risks before they occur.
- Corrective Measures – Steps to reduce damage after a risk event happens.
- Contingency Planning – Preparing alternative plans for emergencies.
- Monitoring and Control – Continuously tracking risks and reviewing controls.
- Training and Awareness – Educating employees and stakeholders about risk management practices.

An organization must have risk mitigation plans in place so that if an event occurs, the organization has contingency plans to mitigate the damage that the organization sustains.

The Risk mitigation best practices involve keeping the stakeholders informed, establishing a strong risk culture and risk tools, and conducting regular risk assessments.

Strategic risk

Strategic risk refers to the internal and external events that may make it difficult, or even impossible, for an organisation to achieve their objectives and strategic goals. These risks can have severe consequences that impact organisations in the long term. Strategic risk may arise from decisions taken by enterprise leadership or from the organization's position in its environment, for example, introduction of new products or services by a competitor; Unsuccessful mergers or acquisitions; Changes in senior leadership; etc.

Any of these risks can affect the firm's future performance and innovation capability. They can also make it harder to respond to change and deal with supply chain and other disruptions.

Financial risk

Financial risk is the possibility of losing money on an investment or business venture. Some more common and distinct financial risks include credit risk, liquidity risk, foreign investment risk, equity risk, and operational risk. Financial risk is a type of danger that can result in the loss of capital to interested parties. The financial risk most commonly referred to is the possibility that a company's cash flow will prove inadequate to meet its obligations.

Operational risk

Operational risk is the risk of losses caused by flawed or failed processes, policies, systems or events that disrupt business operations. Employee errors, criminal activity such as fraud, and physical events are among the factors that can trigger operational risk. In evaluating operational risk, practical remedial steps should be emphasized to eliminate exposures and ensure successful responses.

If left unaddressed, the incurrence of operational risk can cause monetary loss, competitive disadvantage, employee- or customer-related problems, and business failure.

The challenges that may be faced in mitigating operational risks are as under:

1. The data required is not readily available.
2. Operational complexity is growing in enterprises.
3. Operational risk oversteps with other risk functions.
4. Other risk functions feel threatened by what seems like duplicative risk function and don't cooperate.
5. Operations staff complain that monitoring and reporting take time away from their other responsibilities.

ENTERPRISE RISK MANAGEMENT

Enterprise Risk Management (ERM) is a holistic approach employed across the entire organization to identify, assess, and manage various risks that an organization may encounter in pursuit of its objectives. ERM considers risks across all parts of an organization, recognizing the interconnectedness of various functions and processes, and contributes to strategic planning, ultimately providing organizations with a competitive advantage.

Key Objectives of an ERM Framework

An effective ERM framework should achieve the following objectives:

1. Promote a strong risk culture within the organisation so that employees at every level understand their roles and responsibilities in protecting from risk.
2. Support strategic planning by embedding risk considerations.
3. Develop an appropriate risk governance structure.
4. Protect the reputation from significant risks.
5. Comply with laws and government regulations applicable on the organisation.

Organizations that adopt ERM can anticipate threats before they escalate, allocate resources more efficiently, build resilience in uncertain environments and gain competitive advantage.

RISK MANAGEMENT POLICY

A risk management policy is a formal organizational document that establishes guidelines to identify, evaluate, and mitigate risks and creates a structured approach to safeguarding company assets, ensuring compliance, and fostering a risk-aware culture across all departments. It regulates the risk management function of an organization.

As per Section 134(3)(n) of the Companies Act, 2013, the Board's report shall contain 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.

Further, as per Regulation 21 of SEBI (LODR) Regulations, 2015, the Risk Management Committee shall formulate a detailed risk management policy for the Company which shall include the following:

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.

Essential Contents of a Risk Management Policy

A standard Risk Management Policy generally includes:

1. Objective & Scope
2. Risk Governance Structure
3. Risk Appetite & Tolerance
4. Roles and Responsibilities

5. Risk Identification Process
6. Risk Assessment Methodology
7. Mitigation Measures
8. Monitoring & Reporting Mechanism
9. Internal Controls
10. Review & Amendment Procedure

Lesson 19

Sustainability Audit; ESG Rating; Emerging Mandates from Government and Regulators

CHALLENGES IN CONDUCTING SUSTAINABILITY AUDITS

The Sustainability audits play a vital role in enhancing transparency and accountability in financial reporting. Nevertheless, organizations encounter several challenges in implementing these audits efficiently. The major challenges are discussed below:

a. **Lack of Standardized Frameworks:** In the absence of a universally accepted framework or standard for conducting sustainability audits, inconsistencies in how organizations measure and report on environmental, social, and governance (ESG) metrics, make it difficult for organizations to compare sustainability performance across companies.

b. **Data Collection and Measurement Issues:** Collection of accurate and comprehensive ESG data is a complex process as many organizations lack the technological infrastructure needed to manage large data-sets and fragmented systems, insufficient metrics, and unreliable information sources undermines the credibility of sustainability audits and limits their utility for decision-making.

c. **High Implementation Costs:** Conducting sustainability audits requires specialized technology, skilled professionals, and continuous monitoring, which can be expensive for many organizations.

d. **Regulatory and Compliance Challenges:** Companies operating in multiple jurisdictions face diverse regulatory requirements, making it challenging to align sustainability audits with all compliance mandates. Further, the Sustainability regulations are evolving rapidly across countries and industries, making compliance challenging for organizations operating globally.

e. **Stakeholder Engagement Barriers:** It is difficult to engage with diverse stakeholder groups, including investors, customers, and employees due to differing priorities and expectations reduces the effectiveness and perceived value of sustainability audits.

BEST PRACTICES FOR EFFECTIVE SUSTAINABILITY AUDITS

In order to overcome challenges faced in the conducting sustainability audits, it is imperative to adopt certain best practices for improving audit quality, enhancing accountability, and supporting long-term sustainable development. Some of the best practices are discussed hereunder:

a. **Implementation of Standardized Frameworks:** Organizations should follow recognized sustainability standards and frameworks such as Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and Integrated Reporting (IR) guidelines, to ensure consistency, comparability, and credibility in reporting and audit.

b. **Leverage Technology and Automation:** The adoption of technologies such as Artificial Intelligence (AI), Internet of Things (IoT), and blockchain for real-time data collection, analysis, and reporting shall minimize manual errors, improve efficiency, and enhance data accuracy, thereby enabling more reliable audits.

c. **Conduct Regular Training and Awareness Programs:** Comprehensive training programs to educate employees about sustainability goals, reporting standards, audit requirements, and the role they play in achieving organizational goals shall fosters a culture of sustainability and ensures smoother implementation of audit practices.

d. **Promote Stakeholder Engagement:** Regular communication with investors, employees, regulators, and other stakeholders through consultations, and workshops enhances trust and the stakeholders contribute valuable insights.

e. **Integrate Sustainability information with Financial Reporting:** Sustainability information should be aligned with financial reporting systems to improve transparency and accountability, and support informed decision-making.

f. **Strengthen Internal Controls:** Effective internal controls and monitoring mechanisms with reliable systems and processes ensure accurate data collection and help in reducing errors, fraud, and inconsistencies in sustainability reporting.

Lesson 20

Integrated Reporting Framework; Global Reporting Initiative Framework; Business Responsibility & Sustainability Reporting

ESG Disclosures for value chain

3.1 Disclosures for value chain shall be made by the listed company as per BRSR Core, as part of its Annual Report. For this purpose, value chain shall encompass the top upstream and downstream partners of a listed entity, individually comprising 2% or more of the listed entity's purchases and sales (by value) respectively. However, the listed entity may limit disclosure of value chain to cover 75% of its purchases and sales (by value) respectively.

3.2 Listed entities shall report the KPIs in the BRSR Core for their value chain to the extent it is attributable to their business with that value chain partner. Such reporting may be segregated for upstream and downstream partners or can be reported on an aggregate basis.

3.3 The scope of reporting and any assumptions or estimates, if any, shall be clearly disclosed.

3.4 Applicability:-

3.4.1 ESG disclosures for the value chain shall be applicable to the top 250 listed entities (by market capitalization), on a voluntary basis from FY 2025-26.

3.4.2 The assessment or assurance of the above shall be applicable on a voluntary basis from FY 2026-27.

3.5 For the first year of reporting ESG disclosures for value chain, reporting of previous year numbers shall be voluntary. To illustrate, for value chain disclosures of FY 2025-26, reporting of previous year data (i.e., data for FY 2024-25) shall be voluntary.

3.6 If a listed entity provides ESG disclosures for value chain, then it shall disclose the percentage of total sales and purchases covered by the value chain partners, respectively, for which ESG disclosure are provided.

Assurance provider

4.1 The Board of the listed entity shall ensure that the assessment or assurance provider of the BRSR Core has the necessary expertise, for undertaking assessment or assurance.

4.2 The listed entity shall ensure that there is no conflict of interest with the assessment or assurance provider appointed for assessing or assuring the BRSR Core. For instance, it shall be ensured that the assessment or assurance provider or any of its associates do not sell its products or provide any non-audit / non-assessment / non-assurance related service including consulting services, to the listed entity or its group entities.

Nine principles of the NGRBC

The NGRBC are designed to be used by all businesses irrespective of their ownership, size, sector, structure or location. It is expected that all businesses investing or operating in India, including foreign multinational corporations (MNCs) will follow these guidelines. Correspondingly, the NGRBC also provide a useful framework for guiding Indian MNCs in their overseas operations, in addition to aligning with applicable local national standards and norms governing responsible business conduct.

Furthermore, the NGRBC reiterate that need to encourage businesses to ensure that not only do they follow these guidelines in business contexts directly within their control or influence, but that they also encourage and support their suppliers, vendors, distributors, partners and other collaborators to follow them.

Principle 1

Businesses should conduct and govern themselves with integrity, and in a manner that is ethical, transparent and accountable.

Essential Indicators

- Detailed description of number of trainings and awareness programmes on any of the principles held for the Board, KMP, employees and workers
- Details of fine/penalties /punishments/awards/compounding fees/settlement paid
- Disclosure on number of complaints received
- Details relating to anti- corruption or anti-bribery
- Details of complaints with regard to conflict of interest
- Number of days of accounts payables
- Open-ness of business

Leadership Indicators

- Awareness programmes conducted for value chain partners on any of the Principles
- Details of processes in place to avoid/ manage conflict of interests involving members of the Board

Principle 2

Businesses should provide goods and services in a manner that is sustainable and safe.

Essential Indicators

- Disclose percentage of Research and development and capital expenditure investments
- Disclose procedure on Sustainable sourcing
- Disclosure of processes for reusing, recycling and disposing of products
- Disclosure on Extended producer Responsibility
- Disclosure w.r.t. Extended Producer Responsibility (EPR)

Leadership Indicators

- Details of Life Cycle Assessment
- Details of reused, recycled, and safely disposed products and packaging

Principle 3

Businesses should respect and promote the well-being of all employees, including those in their value chains.

Essential Indicators

- Detailed measure taken by entity for well-being of their employee's
- Details of retirement benefits
- Accessibility of workplaces
- Details of Return to work and Retention rates
- Grievance Redressal Mechanism
- Details of recognized association(s) or Unions
- Details of training given to employees and workers
- Details of performance and career development reviews of employees and worker
- Health and safety management system
- Details of Complaints made by employees and workers

Leadership Indicators

- Details of life insurance or any compensatory package for employees

- Measures to ensure that statutory dues have been deducted and deposited by the value chain partners
- Details w.r.t. high consequence work-related injury / ill-health / fatalities

Principle 4

Businesses should respect the interests of and be responsive to all its stakeholders.

Essential Indicators

- Disclosure about the processes for identifying key stakeholder group

Leadership Indicators

- Details of processes for consultation between stakeholders and the Board on economic, environmental, and social topics

Principle 5

Businesses should respect and promote human rights

Essential Indicators

- Details of training on human rights issues and policy(ies)
- Details of minimum wages paid
- Grievance Redressal Mechanism related to human rights issues
- Details of Complaints made by employees and workers

Leadership Indicators

- Details of a business process being modified / introduced as a result of addressing human rights grievances/complaints.
- Details of Human rights due-diligence

Principle 6

Businesses should respect and make efforts to protect and restore the environment.

Essential Indicators

- Details of total energy consumption (in Joules or multiples) and energy intensity
- Specific disclosures relating to water withdrawal and discharge
- Disclosure regarding whether the entity has implemented a mechanism for zero liquid discharge
- Details of air emission or greenhouse gases

- Details related to waste management
- Disclose the details of environmental impact assessment project
- Compliance of applicable environmental law/ regulations/ guidelines

Leadership Indicators

- Details of Water withdrawal, consumption and discharge in areas of water stress
- Details of total Scope 3 emissions & its intensity
- Details of significant direct & indirect impact of the entity on biodiversity in ecologically sensitive areas
- Specific initiatives or used innovative technology or solutions to improve resource efficiency, or reduce impact
- Business continuity and disaster management plan
- Disclosure any significant adverse impact to the environment, arising from the value chain of the entity

Principle 7

Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.

Essential Indicators

- Disclose details of affiliations with trade and industry chambers
- Disclose details of corrective actions taken or underway on any issues related to anti - competitive conduct by the entity

Leadership Indicators

- Details of public policy positions

Principle 8

Businesses should promote inclusive growth and equitable development.

Essential Indicators

- Disclose details of Social Impact Assessment (SIA) of projects undertaken by the entity
- Information on project(s) for which ongoing Rehabilitation and Resettlement (R&R) is being undertaken by the entity.
- Mechanisms to receive and redress grievances of the community

- Details of Job creation

Leadership Indicators

- Details of actions taken to mitigate any negative social impacts identified in the Social Impact Assessments
- Information on CSR projects
- Disclose details of preferential procurement policy
- Details of the benefits derived and shared from the intellectual properties owned or acquired

Principle 9

Businesses should engage with and provide value to their consumers in a responsible manner.

Essential Indicators

- Mechanisms in place to receive and respond to consumer complaints and feedback
- Turnover of products and/ services
- Number of consumer complaints received during the current year and previous year
- Details of instances of product recalls on account of safety issues
- Advertising, cyber security and unfair trade practises along with the details regarding mechanism
- Disclosure regarding framework /policy on cyber security and risks related to data privacy along with providing weblink of the policy.
- Information relating to data breaches

Leadership Indicators

- Channels / platforms where information on products and services of the entity can be accessed (provide web link, if available).
- Steps taken to inform and educate consumers about safe and responsible usage of products and/or services.
- Mechanisms in place to inform consumers of any risk of disruption/discontinuation of essential services.