

**Guidelines on
Corporate Governance
for Central Public Sector Enterprises
2010**



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CHAPTER 1 - INTRODUCTION

1.1 Corporate Governance involves a set of relationships between a company's management, its Board, its shareholders and other stakeholders. Corporate Governance provides a principled process and structure through which the objectives of the company, the means of attaining the objectives and systems of monitoring performance are also set. Corporate Governance is a set of accepted principles by management of the inalienable rights of the shareholders as a true owner of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, ethical business conduct, transparency and makes a distinction between personal and corporate funds in the management of a company.

1.2 There are about 250 Central Public Sector Enterprises (CPSEs). Majority of these CPSEs, including Maharatnas, Navratnas and Miniratnas, are earning profit and have improved their financial performance over the years. In the context of the policy of the government to grant more autonomy to the CPSEs and encourage them to access the capital markets for their fund requirement, Corporate Governance has become even more important. Under the recently introduced Maharatna Scheme, CPSEs are expected to expand international operations and become global giants, for which effective Corporate Governance is imperative.

1.3 These guidelines on Corporate Governance are formulated with the objective that the CPSEs follow the guidelines in their functioning. Proper implementation of these guidelines would protect the interest of shareholders and relevant stakeholders.

1.4 The Department of Public Enterprises (DPE) had issued guidelines on composition of Board of Directors of Central Public Sector Enterprises (CPSEs) in 1992 (**Annex-I**). According to these guidelines at least one-third of the Directors on the Board of a CPSE should be non-official Directors. The Maharatna, Navratna and Miniratna schemes provide that exercise of the enhanced powers delegated to these CPSEs is subject to the condition that their Boards are professionalised by inducting adequate number of non-official Directors, with minimum of four in case of Maharatna, Navratnas and minimum of three in case of Miniratnas. The schemes for Maharatna, Navratna and Miniratna CPSEs also provide for setting up of Audit Committees.

1.5 In November 2001, DPE issued further guidelines on the composition of Board of Directors of listed CPSEs (**Annex-II**). It provided that the number of Independent Directors should be at least one-third of the Board if the Chairman is non-executive, and not less than 50% if the Board has an executive Chairman. Relevant extracts of Clause 49 of the Listing Agreement with Stock Exchanges issued by Securities and Exchange Board of India (SEBI) forms part of the said guidelines.

1.6 To bring in more transparency and accountability in the functioning of CPSEs, the Government in June, 2007 introduced, for an experimental period of one year, the Guidelines on Corporate Governance for CPSEs. These Guidelines were of voluntary nature. Since the issue of these guidelines, the CPSEs have had the opportunity to implement them for the whole of the financial year 2008-09. These Guidelines have been modified and improved upon based on the experience gained during the experimental period of one year. The Government have felt the need for continuing the adoption of good Corporate Governance Guidelines by CPSEs for ensuring higher level of transparency and decided to make these Guidelines mandatory and applicable to all CPSEs.

1.7 Apart from these instructions of DPE, the CPSEs are governed by the Companies Act, 1956 and regulations of various authorities like Comptroller and Auditor General of India (C&AG), Central Vigilance Commission (CVC), Administrative Ministries, other nodal Ministries, etc. The Right to Information Act 2005 is also applicable to the CPSEs. The CPSEs fall under the definition of 'State' as provided in Article 12 of the Constitution of India. Further, some principles of Corporate Governance are already in vogue in public sector because (a) the Chairman, Managing Director and Directors are appointed independently through a prescribed procedure; (b) Statutory auditors are appointed independently by the C&AG; (c) Arbitrary actions, if any, of the Management can be challenged through writ petitions; (d) Remuneration of Directors, employees, etc. are determined on the basis of recommendations of Pay Committees constituted for this purpose; etc.

CHAPTER 2 - APPLICABILITY OF GUIDELINES

2.1 For the purpose of evolving Guidelines on Corporate Governance, CPSEs have been categorised into two groups, namely, (i) those listed on the Stock Exchanges; (ii) those not listed on the Stock Exchanges.

CPSEs listed on Stock Exchanges:

2.2 In so far as listed CPSEs are concerned, they have to follow the SEBI Guidelines on Corporate Governance. In addition, they shall follow those provisions in these Guidelines which do not exist in the SEBI Guidelines and also do not contradict any of the provisions of the SEBI Guidelines.

Non-listed CPSEs:

2.3 Each CPSE should strive to institutionalize good Corporate Governance practices broadly in conformity with the SEBI Guidelines. The listing of the non-listed CPSEs on the stock exchanges may also be considered within a reasonable time frame to be set by the Administrative Ministry concerned in consultation with the CPSEs concerned. The non-listed CPSEs shall follow the Guidelines on Corporate Governance given in the subsequent chapters, which are mandatory.

2.4 The guidelines on Corporate Governance for listed and unlisted CPSEs are being dealt in the succeeding chapters under the following headings.

- Board of Directors
- Audit Committee
- Remuneration Committee
- Subsidiary Companies
- Disclosures
- Report, Compliance and Schedule of Implementation

CHAPTER 3 - BOARD OF DIRECTORS

3.1 Composition of Board

3.1.1 The Board of Directors of the company shall have an optimum combination of Functional, Nominee and Independent Directors.

3.1.2 The number of Functional Directors (including CMD/MD) should not exceed 50% of the actual strength of the Board.

3.1.3 The number of Nominee Directors appointed by Government/other CPSEs shall be restricted to a maximum of two.

3.1.4 In case of a CPSE listed on the Stock Exchanges and whose Board of Directors is headed by an Executive Chairman, the number of Independent Directors shall be at least 50% of Board Members; and in case of all other CPSEs (i.e. listed on Stock Exchange but without an Executive Chairman, or not listed CPSEs), at least one-third of the Board Members should be Independent Directors. The expression 'Independent Director' shall mean a part-time Director of the company who:

- (a) apart from receiving Director's remuneration, does not have any material pecuniary relationship or transaction with the company, its Directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the Director;
- (b) is not related to persons occupying management positions at the Board level or at one level below the Board;
- (c) has not been a senior executive or managerial personnel of the company in the immediately preceding three financial years;
- (d) Is not a partner or an executive, or was not a partner or an executive during the preceding three years, of any of the following:
 - i) the statutory audit firm or the internal audit firm or tax audit firm or energy audit firm or management audit firm or risk audit firm or insurance audit firm that is associated with the company, and
 - ii) the panel advocate(s) or legal firm(s) or consultant(s) and consulting firm(s) or expert(s) that have a material association with the company.

- (e) is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the director;
- (f) is not a substantial shareholder of the company i.e. owning two percent or more of the block of voting shares.

Explanation

For the purposes of the sub-clause 3.1.4:

- (i) **“Associate”** shall mean a company which is an “associate” as defined in Accounting Standard 23 (AS-23), “Accounting for Investments in Associates in Consolidated Financial Statements”, issued by the Institute of Chartered Accountants of India.
- (ii) **“Senior management”** shall mean personnel of the company who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of management one level below the Functional Directors, including all functional heads.
- (iii) **“Relative”** shall mean “relative” as defined in Section 2(41) and Section 6 read with Schedule IA of the Companies Act, 1956 (Extract from the Companies Act is at **Annex III**).

3.1.5 Nominee Directors appointed by an institution which has invested in or lent to the company shall be deemed to be Independent Directors.

Explanation:

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

3.2 Part-time Directors’ compensation and disclosures

All fees/compensation, if any, paid to part-time Directors, including Independent Directors, shall be fixed by the Board of Directors subject to the provisions in the DPE guidelines and the Companies Act, 1956.

3.3 Other provisions as to Board and Committees

3.3.1 Number of Board meetings:- The Board shall meet at least once in every three months and at least four such meetings shall be held every year. Further, the time gap between any two meetings should not be more than three months.

The minimum information to be made available to the Board is given in **Annex-IV**.

3.3.2 A Director shall not be a member in more than 10 committees or act as Chairman of more than five committees across all companies in which he is a Director. Furthermore it should be a mandatory annual requirement for every Director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

Explanation:

- a. For the purpose of considering the limit of the committees on which a Director can serve, all public limited companies, whether listed or not, shall be included.
- b. For the purpose of reckoning the limit under this sub-clause, Chairmanship/membership of the Audit Committee and the Shareholders' Grievance Committee alone shall be considered.

3.3.3 **Compliance of Laws to be reviewed:-** The Board shall periodically review compliance reports of all laws applicable to the company, prepared by the company as well as steps taken by the company to rectify instances of non-compliances.

3.4 Code of Conduct

3.4.1 The Board shall lay down a code of conduct for all Board members and senior management of the company. The code of conduct shall be circulated and also posted on the website of the company.

3.4.2 All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the company shall contain a declaration to this effect signed by its Chief Executive.

3.4.3 Guidelines and policies evolved by the Central Government with respect to the structure, composition, selection, appointment and service conditions of Boards of Directors and senior management personnel shall be strictly followed.

3.4.4 There shall be no extravagance in expenditure on the part of Board members and senior management personnel. CPSEs executives shall be accountable for their performance in conformity with established norms of

conduct.

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

3.4.5 Any external/internal changes made from time to time, due to addition of or amendment to laws/regulatory rules, applicable to CPSEs, need to be dealt with carefully by the respective Boards/senior management personnel.

3.4.6 A suggested list of items to be included in the code of conduct is given at **Annex-V**. Further, to assist the CPSEs in the formulation of the code, a model Code of Business Conduct and Ethics for Board Members and Senior Management is given at **Annex-VI**.

3.5 Functional Role Clarity between Board of Directors and Management

A clear definition of the roles and the division of responsibilities between the Board and the Management is necessary to enable the Board to effectively perform its role. The Board should have a formal statement of Board Charter which clearly defines the roles and responsibilities of the Board and individual Directors. The Board of each CPSE may be encouraged to articulate its Corporate Governance objectives and approach (within the broad parameters of these guidelines and the general perception of business risk) to satisfy the expectations of its majority shareholders and other stakeholders.

3.6 Risk Management

Enterprise risk management helps management in achieving CPSE's performance and profitability targets. It helps to ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the entity's reputation and associated consequences. Considering the significance of risk management in the scheme of corporate management strategies, its oversight should be one of the main responsibilities of the Board/Management. The Board should ensure the integration and alignment of the risk management system with the corporate and operational objectives and also that risk management is undertaken as a part of normal business practice and not as a separate task at set times.

3.7 Training of Directors

The company concerned shall undertake training programme for its new Board members (Functional, Government, Nominee and Independent) in the business model of the company including risk profile of the business of company, responsibility of respective Directors and the manner in which such responsibilities are to be discharged. They shall also be imparted training on Corporate Governance, model code of business ethics and conduct applicable for the respective Directors.

CHAPTER 4 - AUDIT COMMITTEE

4.1 Qualified and Independent Audit Committee

A qualified and independent Audit Committee shall be set up, giving the terms of reference.

4.1.1 The Audit Committee shall have minimum three Directors as members. Two-thirds of the members of audit committee shall be Independent Directors.

4.1.2 The Chairman of the Audit Committee shall be an Independent Director.

4.1.3 All members of Audit Committee shall have knowledge of financial matters of Company, and at least one member shall have good knowledge of accounting and related financial management expertise.

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

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

4.1.4 The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries; provided that in case the Chairman is unable to attend due to unavoidable reasons, he may nominate any member of the Audit Committee.

4.1.5 The Audit Committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the Committee. The Audit Committee may also meet without the presence of any executives of the company. The Finance Director, Head of Internal Audit and a representative of the Statutory Auditor may be specifically invited to be present as invitees for the meetings of the Audit Committee as may be decided by the Chairman of the Audit Committee.

4.1.6 The Company Secretary shall act as the Secretary to the Audit Committee.

4.2 Role of Audit Committee: The role of the Audit Committee shall include the following:

4.2.1 Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

4.2.2 Recommending to the Board the fixation of audit fees.

4.2.3 Approval of payment to statutory auditors for any other services rendered by the statutory auditors.

4.2.4 Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:

- a. Matters required to be included in the Directors' Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956;
- b. Changes, if any, in accounting policies and practices and reasons for the same;
- c. Major accounting entries involving estimates based on the exercise of judgment by management;
- d. Significant adjustments made in the financial statements arising out of audit findings;
- e. Compliance with legal requirements relating to financial statements;
- f. Disclosure of any related party transactions; and
- g. Qualifications in the draft audit report.

4.2.5 Reviewing, with the management, the quarterly financial statements before submission to the Board for approval.

4.2.6 Reviewing, with the management, performance of internal auditors and adequacy of the internal control systems.

4.2.7 Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit.

4.2.8 Discussion with internal auditors and/or auditors any significant findings and follow up there on.

4.2.9 Reviewing the findings of any internal investigations by the internal auditors/auditors/agencies into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.

4.2.10 Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

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

4.2.12 To review the functioning of the Whistle Blower Mechanism.

4.2.13 To review the follow up action on the audit observations of the C&AG audit.

4.2.14 To review the follow up action taken on the recommendations of Committee on Public Undertakings (COPU) of the Parliament.

4.2.15 Provide an open avenue of communication between the independent auditor, internal auditor and the Board of Directors

4.2.16 Review all related party transactions in the company. For this purpose, the Audit Committee may designate a member who shall be responsible for reviewing related party transactions.

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

4.2.17 Review with the independent auditor the co-ordination of audit efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of all audit resources.

4.2.18 Consider and review the following with the independent auditor and

the management:

- The adequacy of internal controls including computerized information system controls and security, and
- Related findings and recommendations of the independent auditor and internal auditor, together with the management responses.

4.2.19 Consider and review the following with the management, internal auditor and the independent auditor:

- Significant findings during the year, including the status of previous audit recommendations
- Any difficulties encountered during audit work including any restrictions on the scope of activities or access to required information,

Explanation: If the company has set up an Audit Committee pursuant to provision of the Companies Act, the said Audit Committee shall have such additional functions/features as contained in these guidelines.

4.2.20 Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

4.3 Powers of Audit Committee

Commensurate with its role, the Audit Committee should be invested by the Board of Directors with sufficient powers, which should include the following:

- (i) To investigate any activity within its terms of reference.
- (ii) To seek information on and from any employee.
- (iii) To obtain outside legal or other professional advice, subject to the approval of the Board of Directors.
- (iv) To secure attendance of outsiders with relevant expertise, if it considers necessary.
- (v) To protect whistle blowers.

4.4 Meeting of Audit Committee

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

4.5 Review of information by Audit Committee

The Audit Committee shall review the following information:

- (i) Management discussion and analysis of financial condition and results of operations;
- (ii) Statement of related party transactions submitted by management;
- (iii) Management letters / letters of internal control weaknesses issued by the statutory auditors;
- (iv) Internal audit reports relating to internal control weaknesses;
- (v) The appointment and removal of the Chief Internal Auditor shall be placed before the Audit Committee; and
- (vi) Certification/declaration of financial statements by the Chief Executive/Chief Finance Officer.

CHAPTER 5 - REMUNERATION COMMITTEE

5.1 Each CPSE shall constitute a Remuneration Committee comprising of at least three Directors, all of whom should be part-time Directors (i.e Nominee Directors or Independent Directors). The Committee should be headed by an Independent Director. CPSE will not be eligible for Performance Related Pay unless the Independent Directors are on its Board. Remuneration Committee will decide the annual bonus/variable pay pool and policy for its distribution across the executives and non unionized supervisors, within the prescribed limits.

CHAPTER 6 - SUBSIDIARY COMPANIES

6.1 At least one Independent Director on the Board of Directors of the holding company shall be a Director on the Board of Directors of its subsidiary company.

6.2 The Audit Committee of the holding company shall also review the financial statements of its subsidiary company.

6.3 The minutes of the Board meetings of the subsidiary company shall be placed at the Board meeting of the holding company. The management should periodically bring to the attention of the Board of Directors of the holding company, a statement of all significant transactions and arrangements entered into by its subsidiary company.

Explanation: For the purpose of these guidelines, only those subsidiaries whose turnover or net worth is not less than 20% of the turnover or net worth respectively of the Holding company in the immediate preceding accounting year may be treated as subsidiary companies.

CHAPTER 7 - DISCLOSURES

7.1 Transactions

7.1.1 A statement in summary form of transactions with related parties in the normal and ordinary course of business shall be placed periodically before the Audit Committee.

7.1.2 Details of material individual transactions with related parties, which are not in the normal and ordinary course of business, shall be placed before the Audit Committee.

7.1.3 Details of material individual transactions with related parties or others, which are not on an arm's length basis should be placed before the Audit Committee, together with Management's justification for the same.

7.2 Accounting Standards

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

7.2.2 The Companies Act, 1956 as well as many other statutes require that financial statements of an enterprise should give a true and fair view of its financial position and working results. That requirement is implicit even in the absence of a specific detailed provision to this effect. However, what constitutes a true and fair view has not been defined either in the Companies Act, 1956 or in any other statute. The Accounting Standards as well as other transactions of the Institute of Chartered Accountants of India on accounting matters seek to prescribe the accounting principles and the methods of applying these principles in preparation and presentation of financial statements so that they give a true and fair view.

7.2.3 Consolidated financial statements present financial information about the parent company, its subsidiaries, its associates and joint ventures as an economic entity to show the economic resources controlled by the group, the obligation of the group and the results the group achieved with its resources,

which is not determinable from individual financial statements of parent, subsidiaries, associates and joint ventures. All CPSEs shall prepare consolidated financial statements as per Accounting Standards, namely, AS21, AS23 and AS27 issued by the Institute of Chartered Accountants of India (ICAI) in relation to the Consolidation of Financial Statements.

7.2.4 Many CPSEs provide groups of products and services or operate in geographical areas that are subject to differing rates of profitability, opportunities for growth, future prospects, and risks which may not be determinable from the aggregated data. Reporting of segment information is widely regarded as necessary for meeting the needs of users of financial statements. Hence, all CPSEs are required to publish segment wise profit and loss as per Accounting Standard 17 “Segment Reporting” issued by ICAI.

7.3 Board Disclosures - Risk management

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

7.3.2 The Board should implement policies and procedures which should include:

- (a) staff responsibilities in relation to fraud prevention and identification
- (b) responsibility of fraud investigation once a fraud has been identified
- (c) process of reporting on fraud related matters to management
- (d) reporting and recording processes to be followed to record allegations of fraud
- (e) requirements of training to be conducted on fraud prevention and identification.

7.4 Remuneration of Directors

7.4.1 All pecuniary relationship or transactions of the part-time Directors vis-à-vis the company shall be disclosed in the Annual Report.

7.4.2 Further the following disclosures on the remuneration of Directors shall be made in the section on the Corporate Governance of the Annual Report.

- a. All elements of remuneration package of all the directors i.e. salary,

- benefits, bonuses, stock options, pension, etc.
- b. Details of fixed component and performance linked incentives, along with the performance criteria.
 - c. Service contracts, notice period, severance fees.
 - d. Stock option details, if any – and whether issued at a discount as well as the period over which accrued and over which exercisable.

7.5 Management

7.5.1 As part of the Directors' Report or as an addition thereto, a Management Discussion and Analysis Report should form part of the Annual Report. This Management Discussion and Analysis should include discussion on the following matters within the limits set by the company's competitive position:

- i. Industry structure and developments
- ii. Strength and weakness
- iii. Opportunities and Threats
- iv. Segment-wise or product-wise performance
- v. Outlook
- vi. Risks and concerns
- vii. Internal control systems and their adequacy
- viii. Discussion on financial performance with respect to operational performance
- ix. Material developments in Human Resources, Industrial Relations front, including number of people employed.
- x. Environmental Protection and Conservation, Technological conservation, Renewable energy developments, Foreign Exchange conservation
- xi. Corporate social responsibility

7.5.2 Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest that may have a potential conflict with the interest of the company (e.g. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives, etc.)

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

CHAPTER 8 - REPORT, COMPLIANCE AND SCHEDULE OF IMPLEMENTATION

8.1 Report on Corporate Governance

There shall be a separate section on Corporate Governance in each Annual Report of company, with details of compliance on Corporate Governance. The suggested list of items to be included in the report on Corporate Governance is in **Annex-VII**.

8.2 Compliance

8.2.1 The company shall obtain a certificate from either the auditors or practicing Company Secretary regarding compliance of conditions of Corporate Governance as stipulated in these Guidelines and Annexes. The aforesaid certificate with the Directors' Report, which is sent annually to all the shareholders of the company, should also be included in the Annual Report.

8.2.2 Chairman's speech in Annual General Meeting (AGM) should also carry a section on compliance with Corporate Governance guidelines/norms and should form part of the Annual Reports of the concerned CPSE.

8.2.3 The grading of CPSEs may be done by DPE on the basis of the compliance with Corporate Governance guidelines/norms.

8.3 Schedule of implementation

These Guidelines on Corporate Governance are now mandatory. The CPSEs shall submit quarterly progress reports, within 15 days from the close of each quarter, in the format (**Annex VIII**) to respective Administrative Ministries/ Departments. The Administrative Ministries will consolidate the information obtained from the CPSEs and furnish a comprehensive report to the DPE by 31st May of every financial year on the status of compliance of Corporate Governance Guidelines during the previous financial year by the CPSEs under their jurisdiction.

8.4 DPE will, from time to time, make suitable modifications to these Guidelines in order to bring them in line with prevailing laws, regulations, acts, etc., DPE may also issue clarifications to the concerned Administrative Ministries/CPSEs on issues relating to the implementation of these Guidelines.

GUIDELINES ON COMPOSITION OF BOARD OF DIRECTORS OF CPSEs

I. Composition of Board of Directors of Public Sector Enterprises.

The question of Composition of the Board of Directors of PSEs has been considered from time to time and various guidelines have been issued in this regard by the Bureau of Public Enterprises. The Members of the Board of PSEs generally consist of the following three categories:-

i. Functional Directors:- These are full time operational Directors responsible for day to day functioning of the enterprise. The Economic Administrative Reform Commission (EARC) had recommended that each Board should have an adequate number of Functional Directors on it. This was considered by the Govt. and the Bureau of Public Enterprises had issued guidelines in 1984 that the posts of Director (Finance) and Director (Personnel) be created in all Schedule 'A' and Schedule 'B' enterprises and on a selective basis in Schedule 'C' Companies. Apart from these two functions, the enterprises could have representation at Board level for other disciplines such as production, marketing, project, planning etc. It is, however, observed that these guidelines are not being followed by the Administrative Ministries while constituting the Boards of PSEs. While in some cases the Boards are functioning without a single Functional Director, in others there is preponderance of such Directors.

ii. Government Directors:- These are appointed by the Administrative Ministries and are generally the officers dealing with the concerned enterprise. In most cases there are two such Directors on a Board; the Joint Secretary or Additional Secretary dealing with particular enterprise and the Financial Adviser of the Ministry. The question of representation of Government Directors on the Boards of PSEs was examined by the Arjun Sengupta Committee and following its recommendation, the Bureau of Public Enterprises have issued guidelines in 1986 that the Administrative Ministry concerned should not have more than one nominee Director on the Board of a PSE. In case of PSEs engaged in trading or dealing with important and exclusive items the number of Government Directors could be two. It is, however, noticed that in actual practice the number of Government Directors on the Boards of PSEs continues to be large.

iii. Non-Official Directors:- The induction of Non-Official Directors on the Boards of PSEs has been considered essential by various Committees and Commissions in order to make the Boards more professional. They are to be drawn from the public men, technocrats, management experts and consultants, and professional managers in industry and trade with a high degree of proven ability. The Bureau of Public Enterprises have issued guidelines in 1983 that the number of such Directors on a Board should be one-third of its total strength.

This input is considered *very* important as it plays a complementary role in providing professional and managerial advice to the Board. It has, however, been the experience that the vacancies of these Directors are not filled up to stipulated levels in many enterprises by the Ministries.

2. The Department of Public Enterprises has recently considered the question of professionalization of the Boards of PSEs in pursuance of the New Industrial policy Statement made in the parliament on 24th July, 1991 and it has been decided that the composition of the Boards of Directors in PSEs should be broadly on following lines:-

(A) Functional Directors:

Every Board should have some full time Functional Directors. The number of such Directors on a Board should not exceed 50% of the actual strength of the Board.

- i. In cases where the number of Functional Directors on the Board is more than the 50% of its actual strength (not sanctioned strength), Administrative Ministries will immediately undertake a review of the strength of the Board in consultation with Department of Public Enterprises and PESB.
- ii. On such Boards where the posts of Functional Directors do not exist, Administrative Ministries will take immediate steps to create such posts in accordance with the prescribed guidelines.

(B) Government Directors:

The number of the Government Directors on the Board of Directors of an enterprise should not exceed one-sixth of the actual strength of the Board.

- i. It will be preferable to have only one Government Director from the concerned Administrative Ministry on each Board. The choice of the nominee Director would vest with the Secretary of the concerned Department.
- ii. In case of PSEs where it is considered essential to give representation on the Boards to other concerned Government agencies/Ministries/State Governments, only one representation from the Group could also be appointed on the Board as part-time Government Director.
- iii. The number of Government Directors on a Board should in no case exceed two.

(C) Non official Directors

- i. The number of Non-Official Part-time Directors on a Board should be at least one-third of its actual strength. Wherever there is under representation of such Directors on the Board the concerned Ministries should take immediate steps to fill up the vacancies to stipulated level.
- ii. A Panel of suitable persons who could be considered for appointment as Non-Official Part-Time Director on the Boards of PSEs will be maintained centrally by Department of Public Enterprises. This Panel

will be prepared in consultation with PESB and the Secretary of the concerned Administrative Ministry.

(DPE O.M. No. 18 (6)/91-GM dated 16th March, 1992.)

II. Composition of Board of Directors of Public Sector Enterprises.

Reference is invited to this Department's O.M. of even number dated the 16th March, 1992 on the above mentioned subject. In para 2 (B) (ii) of the said O.M., it was, inter-alia, mentioned that the choice of the Nominee Director would vest with the Secretary of the concerned Department. The matter was reconsidered in this Department and it has now been decided that the choice of the Nominee Director would vest with the administrative Ministry of the concerned Department.

(DPE O.M. No. 18 (6)/91-DPE (GM) dated 13th November, 1995)

III. Age of retirement of part-time Chairmen and criteria for appointment of part-time non-official Directors in Central PSUs.

The question of prescribing age of retirement for part-time Chairmen of Central Public Sector Enterprises as also laying down requisite criteria for appointment of part-time nonofficial Directors on the Boards of PSUs were under consideration of the Government.

2. Government have now decided that the age of retirement of part-time Chairmen of public enterprises should be 62 years.

3. As regards the selection and appointment of part-time non-official Directors, the following criteria will come into force forthwith:

(a) Qualification: Minimum qualification for part-time non-official Directors would be graduate degree from a recognized university.

(b) Experience: Not less than 10 years at the level of Joint Secretary and above in the Government; CMD/MD in Corporate Sector/PSU; Professor level in an Academic Institution or professionals of repute like eminent Chartered Accountants/Cost Accountants at the level of Directors of Institutes/Heads of Department.

In selecting academics at the level of Professors, these academics should be in fields relevant to the company's area of operation, e.g. management, finance, marketing, technology, human resources, or law, as Professors of some other disciplines may have little to contribute.

(c) Age: The age band should be between 45-65 years (minimum/maximum limit). This could however, be relaxed for eminent professionals, for reasons to be recorded, being limited to 70 years.

4. It has also been decided that the above criteria should be applied for Navratna/Miniratna enterprises in such a way as to ensure that they could be globally competitive and have a level playing field with the Corporates.

(DPE O.M. No. 18(10)/2003-GM-GL-55 dated 11th March, 2004)

IV Criteria for appointment of non-official (Independent) Directors in Central PSEs.

The undersigned is directed to refer to this Department's O.M. of even number dated 11th March, 2004 wherein the criteria for appointment of part-time non-official Directors in Central PSEs were laid down.

2. The criterion relating to 'Experience' has been reviewed by the Government and para 3(b) of the above referred OM has been modified as under:-

“(b) Experience: Not less than 10 years at the level of Joint Secretary and above in the Government; CMD/MD in Corporate Sector/PSE; Professor level in an Academic Institution or professionals of repute like eminent Chartered Accountants/ Cost Accountants at the level of Directors of Institutes/ Heads of Department; persons of eminence with proven track record from Industry, Business or Agriculture.”

3. All the administrative Ministries/Departments are requested to take note of the above modifications in the criteria for appointment of non-official (Independent) Directors for guidance and compliance.

(DPE O.M. No. 18(10)/2003-GM-GL-75 dated 10th November, 2005)

V. Turning selected Public Sector Enterprises into Global Giants - Operational and Administrative modalities - Restructuring of the Boards.

The Common Minimum Programme of the Government states, inter-alia, that Government will identify public sector enterprises that have comparative advantages and support them in their drive to become global giants. In pursuance of these objectives, the government have decided to grant enhanced autonomy and delegation of powers to nine selected public sector enterprises, namely BHEL, BPCL, HPCL, IOC, IPCL, NTPC, ONGC, SAIL and VSNL.

2. The exercise of the enhanced autonomy and authority shall be exercisable only after the Boards have been restructured, as indicated below. It must be ensured that each of these PSEs inducts in the first instance at least four non-official part-time Directors of an impeccable stature and background.

This number should be more for those PSEs which have a very large number of Functional Directors. It should also be ensured that within six months, the number of non-official part-time Directors is increased to reach at least 1/3rd of the total strength of the Board.

3. The above is in partial modification to the general guidelines issued by the Department of Public Enterprises vide OM No.18(6)/91-GM dated 16th March, 1992.

4. While selection of full-time Directors and part-time Government nominees Directors would continue to be done as per the existing procedures, for selection of the non-official part time Directors in these companies, a Search committee comprising Chairman-PESB, Secretary-DPE, Secretary of the Administrative Ministry and an eminent person (s) to be nominated by Industry Minister has been set up.

(DPE OM No.DPE/11(2)/97-Fin. dated 22nd July, 1997)

COMPOSITION OF BOARD OF DIRECTORS OF LISTED CENTRAL PUBLIC SECTOR ENTERPRISES

According to the existing policy, as contained in this Department's O.M. No. 18(6)/91-GM dated 16.3.1992, the Board of Directors of Public Sector Undertakings should consist of (i) Full time Functional Directors whose number should not exceed 50% of the actual strength of the Board; (ii) Government Directors whose number should not exceed one-sixth of the actual strength of the Board subject to the condition that in no case the number should exceed two; and (iii) Non-official part-time Directors whose number should be at least one-third of the actual strength of the Board.

2. The Securities & Exchange Board of India (SEBI) has issued guidelines regarding Listing Agreements with Stock Exchanges, which include a new Clause 49 on Corporate Governance, an extract of which is enclosed (Annexure-I). It provides that in the cases of companies with non-Executive Chairmen at least one-third of the Board should comprise Independent Directors and in the cases of companies with Executive Chairmen at least half of the Board should comprise Independent Directors. The definition of Independent Directors is also given under the Clause 49. The SEBI has clarified that in the case of Public Sector Undertakings the Government nominee Directors cannot be considered as Independent Directors for the purpose of constitution of Board of Directors. The SEBI has, however, subsequently agreed that the nominees of Financial Institutions would be treated as Independent Directors for listed public sector companies. A schedule of implementation is also enclosed (Annexure-II).

3. As all listed companies including PSUs have to comply with the SEBI guidelines, there may be a need to reconstitute the Boards of Directors of some of the listed PSUs so that the requisite number of Independent Directors is inducted in order to avoid de-listing.

4. All the administrative Ministries/Departments are, therefore, requested to take appropriate action, if not already taken, to reconstitute the Board of Directors of listed PSEs in accordance with the SEBI guidelines within the time schedule prescribed. In case there is a need to increase the maximum number of Directors permissible under the Articles of Association, the respective PSEs may be advised to take steps to amend the relevant Article suitably.

(DPE O.M. No. 18(6)/2000-GM dated 26th November, 2001)

ANNEXURE-I of O.M. dated 26.11.2001 - Clause 49: Corporate Governance - Board of Directors

A. The company agrees that the board of directors of the company shall have an optimum combination of executive and non-executive directors with

not less than fifty percent of the board of directors comprising of non-executive directors. The number of independent directors would depend whether the Chairman is executive or nonexecutive. In case of a non-executive chairman, at least one-third of board should comprise of independent directors and in case of an executive chairman, at least half of board should comprise of independent directors.

Explanation: For the purpose of this clause the expression 'independent directors' means directors who apart from receiving director's remuneration, do not have any other material pecuniary relationship or transactions with the company, its promoters, its management or its subsidiaries, which in judgement of the board may affect independence of judgement of the director. Except in the case of government companies, institutional directors on the boards of companies should be considered as independent directors whether the institution is an investing institution or a lending institution.

- B. The company agrees that all pecuniary relationship or transactions of the non-executive directors vis-à-vis the company should be disclosed in the Annual Report.

ANNEXURE-II of O.M. dated 26.11.2001 -

Schedule of Implementation

The above amendments to the listing agreement have to be implemented as per schedule of implementation given below:

- By all entities seeking listing for the first time, at the time of listing.
- Within financial year 2000-2001, but not later than March 31, 2001 by all entities, which are included either in Group 'A' of the BSE or in S&P CNX Nifty index as on January 1, 2000. However to comply with the recommendations, these companies may have to begin the process of implementation as early as possible.
- Within financial year 2001-2002, but not later than March 31, 2002 by all the entities which are presently listed, with paid up share capital of Rs.10/- crore and above, or networth of Rs.25 crore or more any time in the history of the company.
- Within financial year 2002-2003, but not later than March 31, 2003 by all other entities, which are presently listed, with paid up share capital of Rs.3 crore and above.
- As regards the non-mandatory requirement given in Annexure-3, they shall be implemented as per the discretion of the company. However, the disclosures of the adoption/non-adoption of the non-mandatory requirements shall be made in the section on corporate governance of the Annual Report.

EXTRACTS FROM THE COMPANIES ACT, 1956

Section 2 (41) “relative” means, with reference to any person, any one who is related to such person in any of the ways specified in section 6, and no others;

Section 6 - Meaning of “relative”

A person shall be deemed to be a relative of another, if, and only if, -

- (a) they are members of a Hindu undivided family; or
- (b) they are husband and wife; or
- (c) the one is related to the other in the manner indicated in Schedule IA.]

[SCHEDULE IA) [See section 6(c)]

List of Relatives

1. Father.
2. Mother (including step-mother).
3. Son (including step-son).
4. Son’s wife.
5. Daughter (including step-daughter).
6. Father’s father.
7. Father’s mother.
8. Mother’s mother.
9. Mother’s father.
10. Son’s son.
11. Son’s Son’s wife.
12. Son’s daughter.
13. Son’s daughter’s husband.
14. Daughter’s husband.
15. Daughter’s son.
16. Daughter’s son’s wife.
17. Daughter’s daughter.
18. Daughter’s daughter’s husband.
19. Brother (including step-brother).
20. Brother’s wife.
21. Sister (including step-sister).
22. Sister’s husband.

INFORMATION TO BE PLACED BEFORE BOARD OF DIRECTORS

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

**SUGGESTED LIST OF ITEMS TO BE
INCLUDED IN THE CODE OF CONDUCT**

The Board of Directors of the company will formulate the code of conduct for the Directors and senior Management Personnel and while doing so the code of conduct would, inter alia, include the following:

1. Act in the best interests of, and fulfill their fiduciary obligations to the Company
2. Act honestly, fairly, ethically and with integrity;
3. Conduct themselves in a professional, courteous and respectful manner and not take improper advantage of the position of Director;
4. Act in a socially responsible manner, within the applicable laws, rules and regulations, customs and traditions of the countries in which the Company operates.
5. Comply with communication and other policies of the Company;
6. Act in good faith, responsibly, with due care, competence and diligence, without allowing their independent judgment to be subordinated;
7. Not to use the Company's property or position for personal gain;
8. Not to use any information or opportunity received by them in their capacity as Directors in a manner that would be detrimental to the Company's interests;
9. Act in a manner to enhance and maintain the reputation of the Company;
10. Disclose any personal interest that they may have regarding any matters that may come before the Board and abstain from discussion, voting or otherwise influencing a decision on any matter in which the concerned Director has or may have such an interest;
11. Abstain from discussion, voting or otherwise influencing a decision on any matters that may come before the board in which they may have a conflict or potential conflict of interest;
12. Respect the confidentiality of information relating to the affairs of the Company acquired in the course of their service as Directors, except when authorized or legally required to disclose such information;
13. Not to use confidential information acquired in the course of their service as Directors for their personal advantage or for the advantage of any other entity;
14. Help create and maintain a culture of high ethical standards and commitment to compliance;
15. Keep the Board informed in an appropriate and timely manner any information in the knowledge of the member which is related to the decision making or is otherwise critical for the company.
16. Treat the other members of the Board and other persons connected with the Company with respect, dignity, fairness and courtesy.

MODEL CODE OF BUSINESS CONDUCT AND ETHICS FOR BOARD MEMBERS AND SENIOR MANAGEMENT

1.0 Introduction

- 1.1 This Code shall be called “The Code of Business Conduct & Ethics for Board Members and Senior Management” of.....(hereinafter referred to as “the Company”)
- 1.2 The purpose of this Code is to enhance ethical and transparent process in managing the affairs of the Company.
- 1.3 This Code for Board Members and Senior Management has been framed specially in compliance of the provisions of Clause 49 of the Listing Agreement with Stock Exchanges and as per the Guidelines of DPE.
- 1.4 It shall come into force with effect from the(year and month).

2.0 Definitions and Interpretations:

- 2.1 The term “Board Members” shall mean Directors on the Board of Directors of the Company
- 2.2 The term “Whole-time Directors” or “Functional Directors” shall be the Directors on the Board of Directors of the Company who are in whole-time employment of the company.
- 2.3 The term “Part-time Directors” shall mean Directors on the Board of Directors of the Company who are not in whole time employment of the Company.
- 2.4 The term “Relative” shall have the same meaning as defined in Section 6 of the Companies Act, 1956.
- 2.5 The term “Senior Management” shall mean personnel of the Company who are members of its core management team excluding Board of Directors and would comprise all members of management one level below the Whole time Directors, including all functional heads.
- 2.6 The term “the Company” shall mean(name of the Company)

Note: In this Code, words importing the masculine gender shall include feminine gender and words importing singular shall include the plural or vice-versa.

3.0 Applicability

- 3.1 This code shall be applicable to the following personnel:
- a) All Whole-time Directors including the Chairman & Managing Director of the Company.

- b) All Part-time Directors including Independent Directors under the provisions of law.
 - c) Senior Management
- 3.2 The Whole-time Directors and Senior Management should continue to comply with other applicable/to be applicable policies, rules and procedures of the Company.

4.0 **Contents of Code**

Part I General Moral Imperatives

Part II Specific Professional Responsibilities

Part III Specific Additional Provisions for Board Members and Senior Management

This code is intended to serve as a basis for ethical decision making in the conduct of professional work. It may also serve as a basis for judging the merit of a formal complaint pertaining to violation of professional ethical standards.

It is understood that some words and phrases in the code of ethics and conduct document are subject to varying interpretations. In case of any conflict, the decision of the Board shall be final.

PART - I

5.0 General Moral Imperatives

5.1 Contribute to society and human well being

5.1.1 This principle concerning the quality of life of all people, affirms an obligation to protect fundamental human rights and to respect the diversity of all cultures. We must attempt to ensure that the products of our efforts will be used in socially responsible ways, will meet social needs and will avoid harmful effects to health and welfare of others. In addition to a safe social environment, human well being includes a safe natural environment.

5.1.2 Therefore, all Board Members and Senior Management who are accountable for the design, development, manufacture and promotion of company's products, must be alert to, and make others aware of, both a legal and a moral responsibility for the safety and the protection of human life and environment.

5.2 Be honest and trustworthy & practice integrity

5.2.1 Integrity and honesty are essential components of trust. Without trust an organization cannot function effectively.

5.2.2 All Board Members and Senior Management are expected to act in accordance with highest standards of personal and professional integrity, honesty and ethical conduct, while conducting business of the Public Enterprise.

5.3 Be fair and take action not to discriminate

5.3.1 The values of equality, tolerance, respect for others, and the principles of equity & justice govern this imperative. Discrimination, on the basis of race, sex, religion, caste, age, disability, national origins or other such factors, is an explicit violation of this Code.

5.4 Honour confidentiality

5.4.1 The principle of honesty extends to issues of confidentiality of information. The ethical concern is to respect all obligations of confidentiality to all stakeholders unless discharged from such obligations by requirements of the law or other principles of this Code.

5.4.2 All Board Members and Senior Management, therefore, shall maintain the confidentiality of all confidential unpublished information about business and affairs of the CPSE.

5.5 Pledge & Practice

5.5.1 To strive continuously to bring about integrity and transparency in all spheres of the activities.

5.5.2 Work unstintingly for eradication of corruption in all spheres of life.

5.5.3 Remain vigilant and work towards growth and reputation of the Company.

5.5.4 Bring pride to the organization and provide value-based services to Company's stakeholders.

5.5.5 Do duty conscientiously and without fear or favour.

PART II

6.0 Specific Professional Responsibilities

6.1 Live the Vision, Mission and Values of CPSE – each day

Live the Vision, Mission and Values of(name of CPSE) each day. For quick reference they are as under:

Vision

[Incorporate here vision of the CPSE – for example - A World-class Engineering Enterprise committed to enhancing Stakeholder Value]

Mission

[Incorporate here the mission of the CPSE – for example To be an Indian Multinational Engineering Enterprise providing total business solutions through quality products, systems and services in the fields of and other potential areas]

Values

- Zeal to excel and zest for change
- Integrity and fairness in all matters
- Respect for dignity and potential of individuals
- Strict adherence to commitments
- Ensure speed of response
- Foster learning, creativity and team-work
- Loyalty and pride in the CPSE

6.1 **Strive to achieve the highest quality, effectiveness and dignity in both the processes and products of professional work:** - Excellence is perhaps the most important obligation of a professional. Everyone, therefore, should strive to achieve the highest quality, effectiveness and dignity in their professional work.

6.2 **Acquire and maintain professional competence:** Excellence depends on individuals who take responsibility for acquiring and maintaining professional competence. All are, therefore, expected to participate in setting standards for appropriate levels of competence, and strive to achieve those standards.

6.4 **Compliance with Laws:-** The Board Members and Senior Management of the CPSE shall comply with all the applicable provisions of existing local, state, national, and international laws. They should also follow and obey the policies, procedures, rules and regulations relating to business of the CPSE.

- 6.5 **Accept and provide appropriate professional review:** Quality professional work depends on professional review and comments. Whenever appropriate, individual members should seek and utilize peer review as well as provide critical review of the work of theirs.
- 6.6 **Manage personnel and resources to enhance the quality of working life:-** Organizational leaders are responsible for ensuring that a conducive working and business environment is created for fellow employees to enable them delivering their best. The Board Members and Senior Management would be responsible for ensuring human dignity of all employees, would encourage and support the professional development of the employees of the CPSE by providing them all necessary assistance and cooperation, thus enhancing the quality of working.
- 6.7 **Be upright and avoid any inducements:-** The Board Members and Senior Management shall not, directly or indirectly through their family and other connections, solicit any personal fee, commission or other form of remuneration arising out of transactions involving Company. This includes gifts or other benefits of significant value, which might be extended at times, to influence business for the organization or awarding a contract to an agency, etc.
- 6.8 **Observe Corporate Discipline:-** The flow of communication within the CPSE is not rigid and people are free to express themselves at all levels. Though there is a free exchange of opinions in the process of arriving at a decision, but after the debate is over and a policy consensus has been established, all are expected to adhere and abide by it, even when in certain instances one may not agree with it individually. In some cases policies act as a guide to action, in others they are designed to put a constraint on action. All must learn to recognize the difference and appreciate why they need to observe them.
- 6.9 **Conduct in a manner that reflects credit to the Company:-** All are expected to conduct themselves, both on and off duty, in a manner that reflects credit to the Company. The sum total of their personal attitude and behaviour has a bearing on the standing of Company and the way in which it is perceived within the organization and by the public at large.
- 6.10 **Be accountable to Company's stakeholders:-** All of those whom we serve, be it our Customers, without whom the Company will not be in business, the Shareholders, who have an important stake in its business, the Employees, who have a vested interest in making it all happen, the Vendors, who support the Company to deliver in time and Society to which Company is responsible for its actions - are stakeholders of the Company. All, therefore, must keep in mind at all times that they are

accountable to Company's stakeholders.

- 6.11 **Prevention of Insider Trading:-** The Board Members and Senior Management shall comply with the code of Internal Procedures and conduct for prevention of Insider Trading in dealing with Securities of the Company.
- 6.12 **Identify, mitigate and manage business risks:-** It is everybody's responsibility to follow the Risk Management Framework of the Company to identify the business risks that surround function or area of operation of the Company and to assist in the company-wide process of managing such risks, so that Company may achieve its wider business objectives.
- 6.13 **Protect properties of the Company:-** The Board Members and Senior Management shall protect the assets including physical assets, information and intellectual rights of the Company and shall not use the same for personal gains.

PART - III

7.0 **Specific Additional Provisions for Board Members and Senior Management**

7.1 **As Board Members and Senior Management:** They shall undertake to actively participate in the meetings of the Board and Committees on which they serve.

7.2 **As Board Members**

7.2.1 Undertake to inform the Chairman and Managing Director/ Company Secretary of the Company of any changes in their other Board positions, relationship with other business and other events/ circumstances / conditions that may interfere with their ability to perform Board/ Board Committee duties or may impact the judgement of the Board as to whether they meet the independence requirements of Listing Agreement with Stock Exchanges and the Guidelines of DPE.

7.2.2 Undertake that without prior approval of the disinterested members of the Board, they will avoid apparent conflict of interest. Conflict of interest may exist when they have personal interest that may have a potential conflict with the interest of the Company. Illustrative cases can be:

Related Party Transactions: Entering into any transactions or relationship with Company or its subsidiaries in which they have a financial or other personal interest (either directly or indirectly such as through a family member or relation or other person or other organization with which they are associated).

Outside Directorship: Accepting Directorship on the Board of any other Company that competes with the business of the Company.

Consultancy/Business/Employment: Engaging in any activity (be it in the nature of providing consultancy service, carrying on business, accepting employment) which is likely to interfere or conflict with their duties/ responsibilities towards Company. They should not invest or associate themselves in any other manner with any supplier, service provider or customer of the company.

Use of Official position for personal gains: Should not use their official position for personal gains.

7.3 Compliance with the Code of Business Conduct and Ethics

7.3.1 All Members of the Board and Senior Management of Company shall uphold and promote the principles of this code.

The future of the organization depends on both technical and ethical excellence. Not only it is important for Board Members and Senior Management to adhere to the principles expressed in this Code, each of them should also encourage and support adherence by others.

7.3.2 Treat violations of this code as inconsistent association with the organization

Adherence of professionals to a code of ethics is largely and generally a voluntary matter. However, if any of Board Members and Senior Management does not follow this Code, the matter would be reviewed by the Board and its decision shall be final. The Company reserves the right to take appropriate action against the defaulter.

7.3 Miscellaneous Points

7.4.1 Continual updation of Code

This Code is subject to continuous review and updation in line with any changes in law, changes in Company's philosophy, vision, business plans or otherwise as may be deemed necessary by the Board and all such amendments / modifications shall take effect prospectively from the date stated therein.

7.4.2 Where to seek clarifications

Any member of Board or Senior Management requiring any clarification regarding this code of conduct may contact Director (HR)/ Company Secretary/ any officer specifically designated by the Board of Directors.

**ACKNOWLEDGEMENT OF RECEIPT OF
CODE OF BUSINESS CONDUCT AND ETHICS FOR
BOARD MEMBERS AND SENIOR MANAGEMENT**

I have received and read the code of Business Conduct and Ethics for Board Members and Senior Management of (name of the Company) I understand the standards and policies contained in the said Code of Business Conduct and Ethics and understand that there may be additional policies or laws specific to my job. I further agree to comply with the said Code of Business Conduct and Ethics.

If I have questions concerning the meaning or application of the said Code of Business Conduct and Ethics, any policies of the CPSE or the legal and regulatory requirements applicable to my job, I know I can consult Director or Company Secretary concerned the CPSE knowing that my questions or reports will be maintained in confidence.

Further, I undertake to provide following Affirmation on an Annual basis to the Company within 30 days from the end of 31st March every year.

AFFIRMATION

(By Board Members/ Senior Management of the Company on Annual basis by 30th April of every year)

I,.....(name),.....(designation), having read and understood the Code of Business Conduct and Ethics for Board Members and Senior Management, hereby solemnly affirm that I have complied with and has not violated any of the provisions of the Code during the year ended 31st March

Signature

Name _____

Designation _____

Place: Employment Number _____

Telephone No. _____

Date: _____

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

1. **A brief statement** on company's philosophy on Guidelines on Corporate Governance.
2. **Board of Directors:**
 - i. Composition and category of directors, for example, promoter, executive, non-executive, independent nonexecutive, nominee director.
 - ii. Attendance of each director at the Board meetings and the last AGM.
 - iii. Number of other Boards or Board Committees in which he/she is a member or Chairperson
 - iv. Number of Board meetings held, dates on which held.
 - v. In case of appointment of new Director/re-appointment of a Director following information may be provided:
 - a. brief resume of Director
 - b. nature of his expertise in specific functional areas; and
 - c. names of companies in which the person holds the Directorship and the membership of committees of the Board.
3. **Audit Committee:**
 - i. Brief description of terms of reference
 - ii. Composition, name of members and Chairperson
 - iii. Meetings and attendance during the year
4. **Remuneration Committee:**
 - i. Brief description of terms of reference
 - ii. Composition, name of members and Chairperson
 - iii. Meetings and attendance during the year
 - iv. Remuneration policy/Details of remuneration to all the Directors
5. **General Body meetings:**
 - i. Date, Time and Venue of the last three AGMs
 - ii. Whether any special resolutions passed in the previous three AGMs
 - iii. AGM of the current year: Date, Time and Venue
6. **Disclosures:**
 - i. Disclosures on materially significant related party transactions that may have potential conflict with the interests of company at large.
 - ii. Details of non-compliance by the company, penalties, strictures imposed on the company by any statutory authority, on any matter related to any guidelines issued by Government, during the last three years.
 - iii. Whistle Blower policy and affirmation that no personnel has been denied access to the Audit Committee.

- iv. Details of compliance with the requirements of these guidelines
- v. Details of Presidential Directives issued by the Central Government and their compliance during the year and also in the last three years.
- vi. Items of expenditure debited in books of accounts, which are not for the purposes of the business.
- vii. Expenses incurred which are personal in nature and incurred for the Board of Directors and Top Management.
- viii. Details of Administrative and office expenses as a percentage of total expenses vis-a-vis financial expenses and reasons for increase.

7. Means of communication:

- i. Quarterly results
- ii. Newspapers wherein results normally published
- iii. Any website, where displayed
- iv. Whether it also displays official news releases;

8. Audit qualifications:

Company may move towards a regime of unqualified financial statements.

9. Training of Board Members:

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

10. Whistle Blower Policy:

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

Format of Quarterly Compliance Report by CPSEs to nodal Administrative Ministries/Departments under Para 8.3 of DPE's Guidelines on Corporate Governance for CPSEs

Name of the CPSE:

Administrative Ministry/Department:

Whether listed or unlisted:

Quarter ending on:

S. No.	Activity	CG Guidelines Clause ¹	Status of compliance with the CG guidelines (Yes/No/NA)	Remarks
1	2	3	4	5
I	Board of Directors			
1.	Composition of Board	3.1		
2.	Non-official Directors	3.1		
3.	Part-time directors compensation and disclosures	3.2		
4.	Number of Board meetings	3.3.1		
5.	Review of compliance of laws	3.3.3		
6.	Code of Conduct	3.4		
7.	Risk management	3.6		
8.	Training for new Board members	3.7		
II	Audit Committee			
9.	Constitution of Audit Committee	4.1		
10.	Audit Committee assigned due role	4.2		
11.	Audit Committee vested adequate powers	4.3		
12.	Meetings of Audit Committee	4.4		
13.	Review of information by Audit Committee	4.5		
III	Remuneration Committee			
14.	Constitution of remuneration Committee	5.1		

¹ Refers to the relevant provision in the Guidelines on Corporate Governance issued by DPE

IV	Subsidiary Companies			
15.	Board of subsidiary companies	6.1		
16.	Review of financial statements of subsidiary by Audit Committee	6.2		
17.	Review of performance of subsidiary by Board	6.3		
V	Disclosures			
18.	Transactions	7.1		
19.	Accounting Standards	7.2.1		
20.	Consolidated financial statements	7.2.3		
21.	Segment-wise profit and loss statement	7.2.4		
22.	Board Disclosures - Risk management	7.3		
23.	Remuneration of directors	7.4		
24.	Management Discussion and Analysis	7.5		
25.	Disclosures by Senior management.	7.5.2		
VI	Report and Compliance			
26.	Report on Corporate Governance	8.1		
27.	Compliance Certificate	8.2.1		
28.	Chairman' speech in AGM and annual report	8.2.2		
29.	Holding of AGM, Adoption of audited accounts and filing of adopted accounts with the Registrar of Companies within the stipulated time@			
30.	Timely submission of Compliance report	8.3		

@ Information in respect of this item should be furnished at the end of the relevant quarter of the relevant year.

(Name and Signature of the Chief Executive)

Date:-