

Indian Corporate Governance Scorecard

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1. INTRODUCTION

India today is witness to a rising class of responsible and aware investors. Empowered by changing regulations, they are asking the right questions of managements and vocalizing their opinions by casting their votes. To boost stakeholder confidence, companies need to upgrade their corporate governance framework to ensure it is in line with international and local best practices.

“Good corporate governance is not an end in itself. It is a means to create market confidence and business integrity, which in turn is essential for companies that need access to equity capital for long term investment.”

- G20/OECD Principles of Corporate Governance

The Indian Corporate Governance Scorecard (Scorecard) is being launched to assist with this transition. The Scorecard provides a standardized and objective evaluation framework which can be used by companies, regulators, and other stakeholders to assess companies' corporate governance practices. For the most part, the benchmarks embedded in the Scorecard are independent of regulatory requirements – helping market participants approach governance as a principle-driven, and not compliance, exercise. Over time, the Scorecard will help promote the adoption and implementation of best practices in corporate governance in the Indian markets.

GOVERNANCE SCORECARD – A MUCH NEEDED MEASURE

Companies	Investors	Creditors	Regulators and Stock Exchanges
<ul style="list-style-type: none"> •Self assessment of governance strengths and weakness •Provide proof of governance leadership to stakeholders •Independent validation of Corporate Governance practices •Improve performance through better risk management 	<ul style="list-style-type: none"> •Identify governance quality of portfolio •Build investment strategies based on governance track record •Use add-on models to compute portfolio score 	<ul style="list-style-type: none"> •Get access to data on governance parameters •Supplement credit research and approval with governance assessments •Create early warning signals for credit protection deterioration from changes in governance structure 	<ul style="list-style-type: none"> •Measure market-wide level of corporate governance •Analyse effectiveness of regulatory framework and create incentives for better governance •Complement surveillance activities •Enhance global perception and trust in Indian markets

2. GLOBAL EXPERIENCES OF GOVERNANCE SCORECARDS

- **Anne Molyneux, Global Corporate Governance Expert**

Since the financial crisis of 2008 there has been considerable review of corporate governance codes and also questioning on the part of regulators and investors worldwide concerning the actual level of implementation of corporate governance code practices.

Issuers of national corporate governance reports may be public institutions, including regulators, or other private institutions. Nineteen jurisdictions have national regulators that monitor and report on their activities with regard to corporate governance. France, Hong Kong SAR, China, Italy, the Netherlands, Singapore, Sweden, and the United Kingdom are some of the countries and economies that regularly review and report on corporate governance code adherence.

What is a Scorecard?

Scorecards have been used in many jurisdictions as one of several ways of measuring the actual level of corporate governance practices in a company, in a particular industry (e.g. banks), country or on a particular stock exchange. Scorecards are a quantitative tool to assess the level or standard of corporate governance in an individual company, usually in the form of a questionnaire. The information may be used in aggregate to review the level of corporate governance good practices in a country or particular jurisdiction.

Who uses Scorecards?

Scorecards have also been used as a basis for the introduction of special indices on stock exchanges (e.g. the Novo Mercado in Brazil and the Shanghai Stock Exchange index in China). Users of scorecard information also vary widely and include regulators, investors, companies and boards of directors, banks and other financial institutions, and stakeholders.

A sample of countries using scorecards in various ways to assess corporate governance appears below. Some scorecards have focused on banking institutions. However, in the main scorecards have been used to assess the corporate governance of listed companies.

Countries Using Scorecards for Listed Entities

- ASEAN countries (Thailand, The Philippines, Malaysia, Singapore, Indonesia, Vietnam)
- Azerbaijan
- Bulgaria
- Colombia
- FYR Macedonia
- Germany
- Jordan
- Kazakhstan
- Montenegro
- Palestine
- Bosnia Herzegovina
- Trinidad and Tobago

Bank Scorecards

- Afghanistan
- Georgia
- Indonesia
- Italy
- Jordan
- The Netherlands
- Nigeria
- Qatar
- Singapore

Benefits of Scorecards

Scorecards are a way to encourage compliance, assessing companies' governance practices and which provide opportunities for systematic improvement. Monitoring and enforcement of corporate governance, as seen through the use of scorecards, have led to the following:

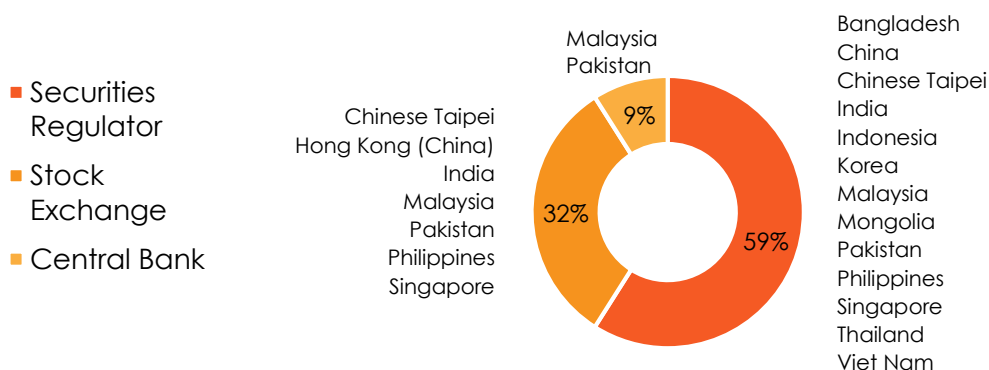
- Heightened awareness and greater visibility of provisions and global better practices;
- Greater investor insight into corporate governance in potential investees and investee countries;
- A systematic way to review and analyze the quality of corporate governance within companies and countries and progress from year to year;
- Assists regulatory groups to identify strengths and weaknesses in corporate governance practices, leading to further reform, more integration and harmonization of laws, regulations, and codes;
- Companies motivated to enhance their corporate governance practices beyond the minimal requirements of laws and regulations; and
- Engagement of stakeholders in the corporate governance debate on the results

OECD Experience

In general, monitoring of corporate governance codes and their implementation has emerged. Recent OECD research into monitoring and enforcement arrangements for corporate governance, especially in listed entities across the 35 OECD member countries and five Key Partners (Brazil, China, India, Indonesia, South Africa) participating in the OECD Corporate Governance Committee, is evident. The G20/OECD Principles, updated and reissued in September 2015 place new emphasis on the quality of supervision and enforcement of corporate governance frameworks and practices. The Principles state: "countries seeking to implement the Principles should monitor their corporate governance framework, including regulatory and listing requirements and business practices, with the objective of maintaining and strengthening its contribution to market integrity and economic performance."¹ Both the OECD and the World Bank Group have developed a questionnaire-style methodology to assess the corporate governance level of countries.

The 2016 OECD Asian Roundtable on Corporate Governance initiated a survey on corporate governance frameworks in Asia. In the draft survey on the frameworks, increased emphasis on monitoring and enforcement of corporate governance code implementation is evident. The supervision, monitoring and enforcement activities varied across jurisdictions between securities regulators, stock exchanges and central banks (for banking institutions) as the figure below indicates.

Chart 1: Which institution is responsible for surveillance of the Corporate Governance Code or Principles?²



¹ OECD, G20/OECD Principles of Corporate Governance, 2015.

² It is noted that in some jurisdictions (e.g. Chinese Taipei, India, Malaysia) the surveillance of corporate governance is shared between the securities regulator and the stock exchange.

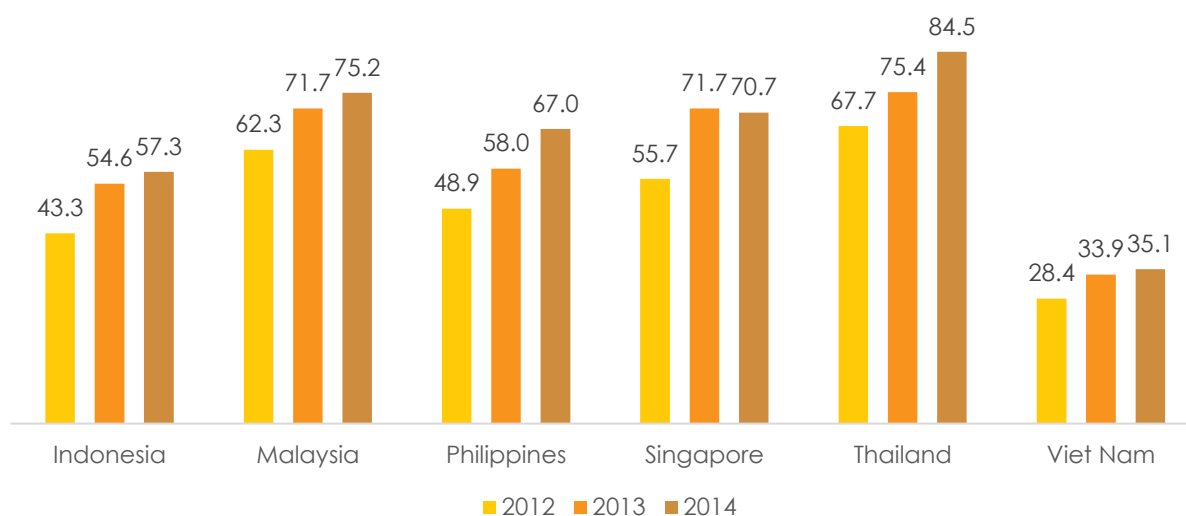
Germany Scorecard Experience

Germany has been using an annually applied scorecard to measure the state and development of corporate governance in DAX and MDAX companies since 2000 and has found the scorecard a useful diagnostic tool to show relative corporate governance strengths and weaknesses. The 2016 report³ on companies governance during the 2015 period showed that “with regard to all companies examined, the analysis shows a positive picture: the acceptance rate of 96.1 percent reflects a high level of acceptance (of the German Corporate Governance Code).

ASEAN – Regional Scorecard Experience

The ASEAN corporate governance scorecard is a joint initiative of the ASEAN Capital Markets Forum and the Asian Development Bank. It covers the areas of the OECD 2004 Principles. Six countries—Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam—participate in this initiative. The corporate governance scorecard provides a common benchmark on the corporate governance practices within the ASEAN region and allows country-to-country comparability. Most countries have shown improvement in corporate governance practices over the period since the inception of the scorecard. Scorecards throughout Asia have been a positive impetus for corporate governance change. National scorecards, the forerunners of the ASEAN scorecard, were successful in achieving change in the corporate governance regulatory frameworks and in getting corporate governance on the companies’ agendas.

Chart 2: ASEAN Scorecard Mean Scores by Country⁴



Source: ACMF Working Group D Secretariat 2014

Investors Interest

The CFA Institute⁵ undertook a survey of asset managers which showed that “almost three-quarters of all investment professionals worldwide (73 percent) take environmental, social and corporate governance issues into consideration in the investment process.” This picture was confirmed by another survey of Canadian institutional investors in 2016 which found that “80% review governance issues for every investment.”⁶ Investors are particularly interested in the

³ Professors Rapp, Strenger, Wolff, Code Compliance Report 2016, HHL Center for Corporate Governance, Leipzig.

⁴ Source: ASEAN Country Reports 2013-2014.

⁵ Press release of the Certified Financial Analysts Institute, 17 August 2015.

⁶ RR Donnelley, 2016 Study of Canadian Institutional Investors, Simple Logic, 2016.

actual level of corporate governance implementation of national codes. Credit Suisse, the Swiss multinational bank, uses the Holt Governance Scorecard, a proprietary scorecard, to inform its investment decisions.

Indeed, the investor community itself uses a scorecard to assess companies. “Corporate Governance Watch 2016 is a biannual study⁷ that tracks the corporate governance of more than 1,000 companies across 12 Asia-Pacific markets.

Australia, which was included in the [2016] survey for the first time, was ranked top with a total score of 78. Singapore grabbed the second spot with a score of 67, nudging ahead of Hong Kong on 65. Mainland China ranked 10th in the report on 43, ahead of the Philippines on 38 and Indonesia on 36. Hong Kong topped the last survey, in 2014, and was also placed first in 2007. Singapore has come out on top in five of the last seven surveys, before Australia was included.

The results are based on a survey of fund managers and institutional investors to give scores that evaluate accounting and auditing, corporate governance culture, enforcement and regulatory environment, and corporate governance rules⁸.

International Finance Corporation (IFC) Experience

IFC has delivered several programs related to implementation of corporate governance codes and scorecards to assess implementation such as this one in India for the Bombay Stock Exchange. IFC has undertaken 15 scorecards since 2008 and supported 45 code development projects in 30 countries.

⁷ The CG Watch is a survey of the corporate governance of companies across Asia Pacific and is undertaken by the Asian Corporate Governance Association in conjunction with CLSA.

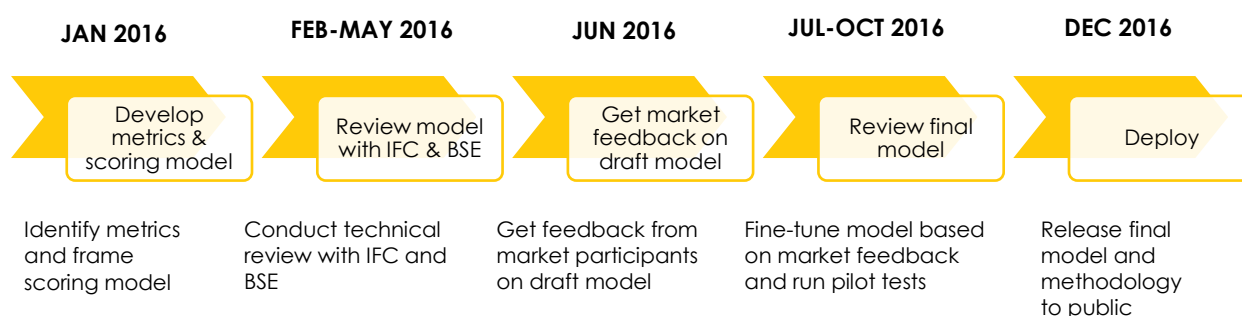
⁸ Press release on the CG Watch, 29 September 2016.

3. THE JOURNEY

The Scorecard is a joint initiative of the International Finance Corporation (IFC) and Bombay Stock Exchange (BSE). The project has been supported and sponsored by the Japan Ministry of Finance.

Institutional Investor Advisory Services India Limited (IIAS) is the technical partner responsible for drafting the Scorecard questionnaire and methodology. The content of the Scorecard was developed in consultation with IFC's team of corporate governance experts, comprising Ms. Anne Molyneux (Director, CS International) and Mr. Pratip Kar (Former Executive Director, Securities and Exchange Board of India).

THE SCORECARD JOURNEY IN INDIA



The preparation work for the Scorecard started in January 2016 with the identification of key metrics to be included in the scoring model. The first set of questions were derived from the G20/OECD Principles of Corporate Governance and wherever applicable, customized to suite the Indian context. Existing scorecards used in other jurisdictions were also reviewed to understand recurring themes across various countries and accordingly, adjust the sectional weightages. Following this, the draft model framework was released in the first public launch event in June 2016.

Based on market feedback, various aspects of the scorecard were subsequently refined. To validate the model, pilot tests were conducted on the top 30 listed Indian companies. Post this exercise, the completed questionnaire was launched in October 2016.

Before the launch, the scorecard was put through a peer-review exercise to ensure that response key is sufficiently granular and there are no discrepancies in the standard of assessment applied by each of the assessors.

The publication of this document marks the final release of the Indian Corporate Governance Scorecard and methodology.

4. EVALUATION FRAMEWORK

Given that India is a member of the G20 forum, the evaluation framework is built around the G20/OECD Principles of Corporate Governance (G20/OECD Principles)⁹, which are the globally accepted benchmark for corporate governance. While applying the G20/OECD Principles, consideration was also given to issues relevant in the Indian context and the regulatory framework prescribed by Indian regulators and oversight bodies.

G20/OECD Principles of Corporate Governance



⁹ <http://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf>

The principles capture the essential elements of corporate governance:

- **Principle I:** Ensuring the basis for an effective corporate governance framework
The corporate governance framework must help promote transparent and fair markets, and the efficient allocation of resources.
- **Principle II:** The rights and equitable treatment of shareholders and key ownership functions
The corporate governance framework must identify basic shareholder rights and provide equitable treatment of all shareholders.
- **Principle III:** Institutional investors, stock markets and other intermediaries
The corporate governance framework must disclose and minimize conflicts of interest of market participants.
- **Principle IV:** The role of stakeholders in corporate governance
The corporate governance framework must encourage active co-operation between companies and their stakeholders.
- **Principle V:** Disclosure and transparency
The corporate governance framework must facilitate disclosure of material information to aid in informed decision-making.
- **Principle VI:** The responsibilities of the board
The corporate governance framework must ensure effective supervision by the board and enhance the board accountability to stakeholders

The G20/OECD Principles of Corporate Governance:



have been adopted as one of the Financial Stability Board's (FSB) Key Standards for Sound Financial Systems serving FSB, G20 and OECD members



have been used by the World Bank Group in more than 60 country reviews worldwide



serve as the basis for the Guidelines on corporate governance of banks issued by the Basel Committee on Banking Supervision

The scorecard requires the evaluation to be conducted only on publicly available data. Sources of information will primarily include official company documents on the company website and stock exchange filings. For a few specific questions, the verification sources may even include regulatory orders and media reports.

The questions in the Scorecard have been grouped into four categories – each category corresponding to one of the principles recognised in the G20/OECD Principles as a measure of good corporate governance:

Rights and equitable treatment of shareholders	Role of stakeholders in corporate governance	Disclosures and transparency	Responsibilities of the board
<ul style="list-style-type: none"> •Quality of shareholder meetings •Related party transactions •Investor grievance policies •Conflicts of interest 	<ul style="list-style-type: none"> •Business responsibility initiatives •Supplier management •Employee welfare •Investor engagement •Whistle-blower policy 	<ul style="list-style-type: none"> •Ownership structure •Financials •Company filings •Risk Management •Audit integrity •Dividend payouts and policies 	<ul style="list-style-type: none"> •Board and committee composition •Training for directors •Board evaluation •Director remuneration •Succession planning

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

The underlying principles behind the Scorecard are listed as follows:

- The Scorecard must be able to provide a true and fair assessment of governance practices.
- The Scorecard should reflect globally recognized good governance practices.
- The Scorecard should factor in the Indian construct. However, to the extent possible, it should be universally applicable even for companies outside the Indian markets.
- The Scorecard should be constructive and encourage companies to adopt better practices beyond minimum compliance.
- The Scorecard should be reliable and have appropriate checks and balances to ensure credibility of the assessments.

CAVEAT

Even the best corporate governance frameworks do not guarantee that companies will always practice good corporate governance. The scorecard is based on publicly available information and it will not be able to accurately predict the extent to which the documented practices are followed. It may also well be that a company may change its behaviour following a change in internal or external factors. Further, while it is expected that highly ranked companies will create greater long-term stakeholder value, the scorecard must not be used to predict future stock price or financial performance.

To ensure that the Scorecard is easily comprehensible and applied consistently, detailed scoring keys and guidance notes have been developed for each question.

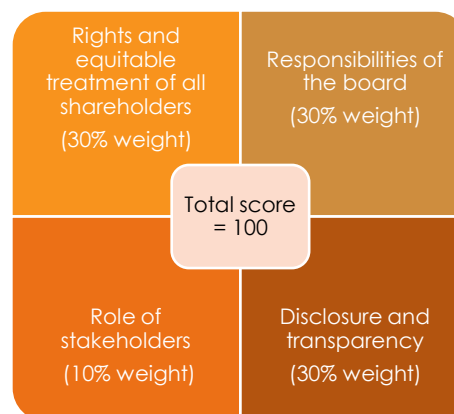
FAQs

Questions	Responses
What type of companies can be evaluated by the scorecard?	The metrics used in the scorecard can be universally applied to all companies. However, given that the scorecard relies only on publicly available data, external assessments will be relevant mostly for listed companies.
Is the scorecard applicable to small/recently listed companies?	The scorecard takes the view that listing on the stock exchanges casts a public obligation to adopt good corporate governance practices. Thus, the fact that companies may be only recently listed or may be small in size are not legitimate reasons to lower the measurement thresholds of the governance scorecard.
Who fills in the scorecard?	The scorecard can be used by all market participants to evaluate companies. While filling up the questionnaire, the assessor needs to refer to the guidance notes included as part of the scoring model. However, this score can only be used by participants for internal evaluation – it cannot be used publicly unless validated.
When can the company use the score publicly?	The company can only use the score publicly if it has been validated by a task-force comprising corporate governance experts appointed by an authorized body.
Does the scorecard consider industry specific issues?	While the scorecard currently does not address industry specific issues separately, sectoral parameters may be covered in future iterations of the scorecard.

5. METHODOLOGY

The scorecard comprises a total of 70 questions. These questions are divided into four categories corresponding to the respective G20/OECD principles. Each category has a different number of questions that address the relevant issues related to the specific G20/OECD principle. The weightages assigned to each category are based on the number of questions in the category and the relative importance of the questions in that category in the Indian corporate governance framework.

It was determined that the quality of corporate governance practices referred to in each question should be recognised on three levels:



SCORECARD MATRIX

- **2 points:** If the company follows global best practices for that element of corporate governance
- **1 point:** If the company follows reasonable practices or meets the Indian standard for that element of corporate governance
- **0 point:** If the company needs to improve in that element of corporate governance

Some questions do require a more limited 'yes'/'no' response. In such cases, 2 points are awarded for a positive response and zero points for a negative response. If information is not observable through publicly available relevant information, the question will not be awarded any points.

Some questions may also provide for a "not applicable" option. If the assessors select this option, the question will be excluded while applying the scoring formula.

Each question has a detailed response key which underlines the best practice. The assessors need to strictly adhere to what is mentioned in the response key for scoring on each question.

CATEGORY WEIGHTS

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

To arrive at a final score for a company, the assessors need to:

- Add the scores for all responses under a category and divide it by the maximum attainable score for the category. This may need to account for questions which are not applicable for the company.
- Multiply the ratio so obtained by the total category weight to give a weighted score for that category.
- Sum all weighted scores across all four categories. The final score will be rounded off to the nearest integer.

$$\text{Category Score} = \frac{\text{Aggregate score of all questions under category}}{\text{(Number of applicable questions in category x 2)}} \times \text{Category Weight}$$

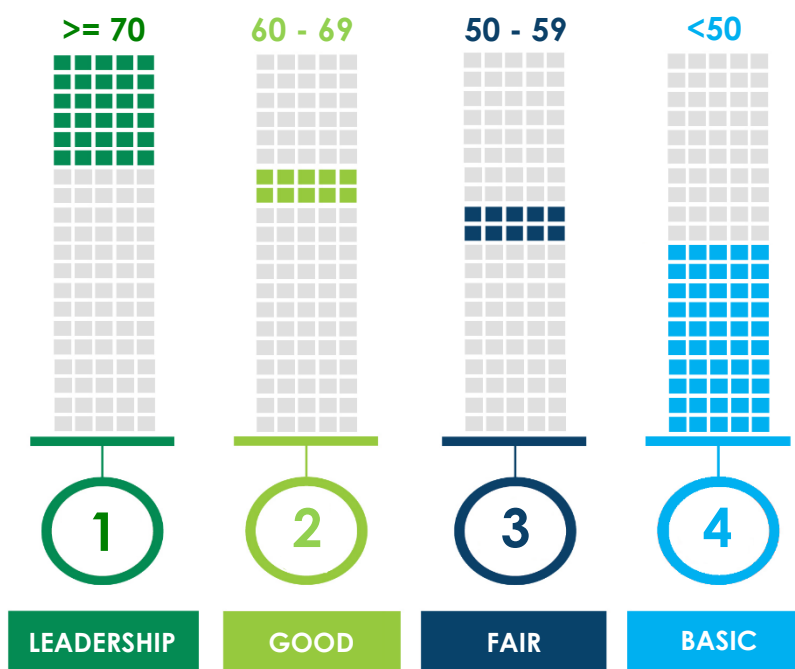
$$\text{Total Score} = \text{Category Score}_1 + \text{Category Score}_2 + \text{Category Score}_3 + \text{Category Score}_4$$

SCORING EXAMPLE

Category	Total score (A)	Maximum attainable score (B)	Category weight (%) (C)	Weighted score (A/B)*C
Rights & equitable treatment of shareholders	30	38	30	24
Role of stakeholders	12	18	10	7
Disclosure & transparency	38	46	30	25
Responsibilities of board	28	38	30	22
FINAL SCORE				77*

* Rounding-off to be performed only at the final score level

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



6. TREND SUMMARY

The initial study was conducted on the S&P BSE SENSEX 30 (SENSEX) companies. Based on the assessments, the following trends and leadership practices were identified across the index.

Trends

26

out of 30 companies had adequate disclosures on business segment information



26

out of 30 companies had women directors who were not part of the promoter family



27

out of 30 companies did not have complex holding structures such as cross-holdings, pyramidal structures, among others



30

out of 30 companies had made timely payments to lenders, creditors and suppliers



Stellar Practices

1

company had detailed disclosures on succession planning



3

companies provide detailed transcripts or minutes or a webcast of the AGMs/EGMs held over the past one year



4

companies facilitated shareholder participation via video or tele-conferencing or via advance question submissions

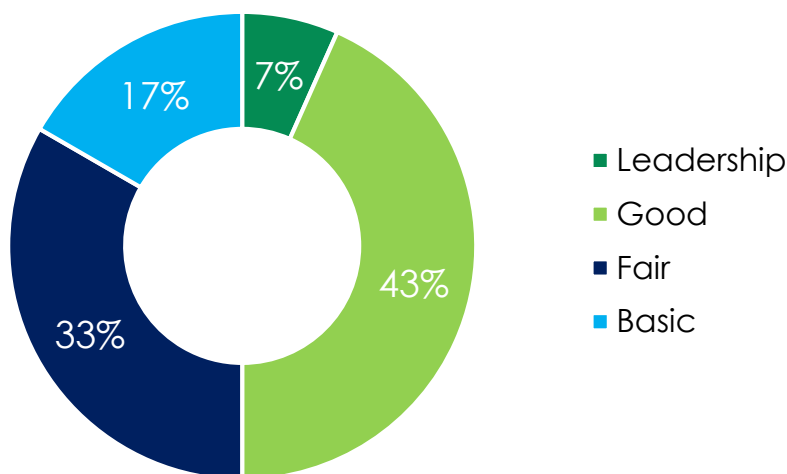


3

companies had robust internal audit policies

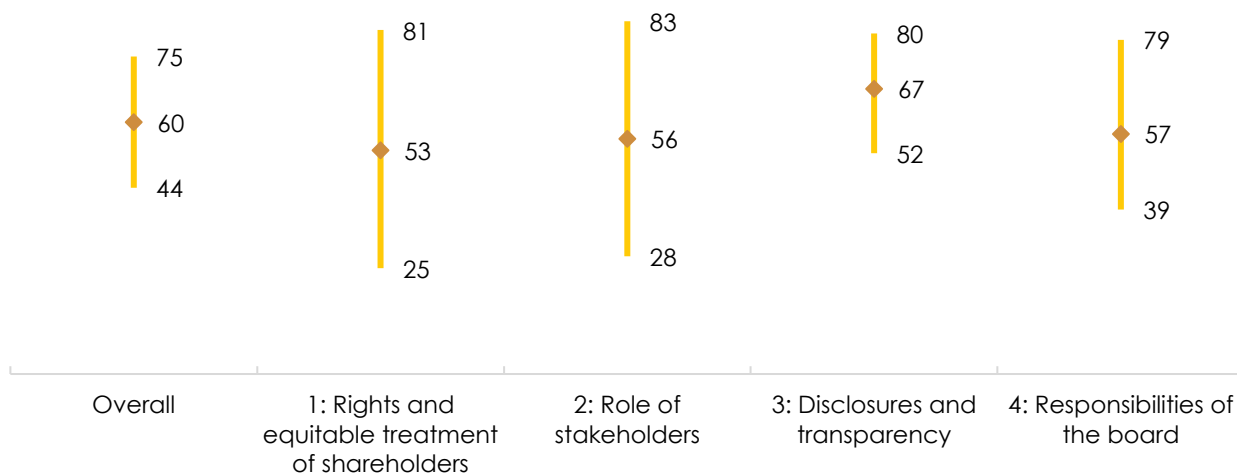


Chart 3: Percentage of companies in each governance category



The distribution of scores was fairly even with 50% of companies falling in the 'Leadership' or 'Good' categories. Four companies scored less than 50 points and were classified in the 'Basic' category.

Chart 4: Maximum, minimum and median percentage score in each category

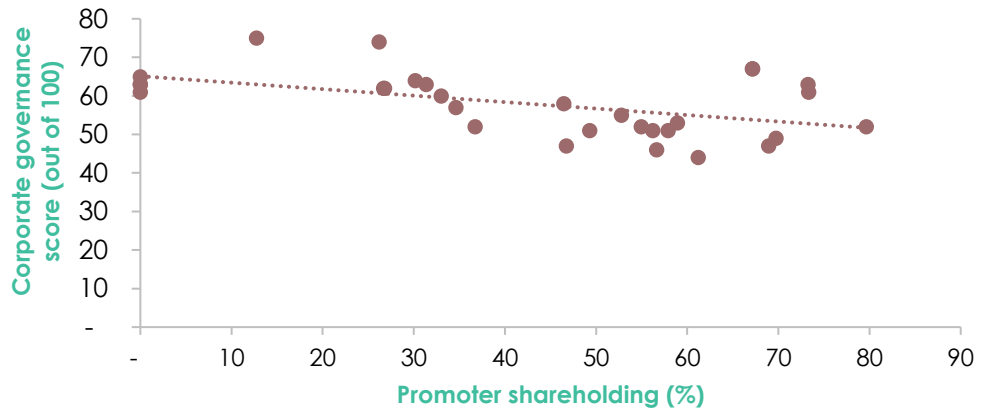


The overall governance scores ranged from a maximum of 75 to a minimum of 44. The median score across all the Sensex companies was 60. A large variance in scores was evident in the first category - 'Rights and equitable treatment of shareholders' with scores ranging from 81 to 25, with a median score of 53. The lowest variance between minimum and maximum scores and the highest median score of 67 were visible in the third category dealing with 'Disclosures and transparency'.

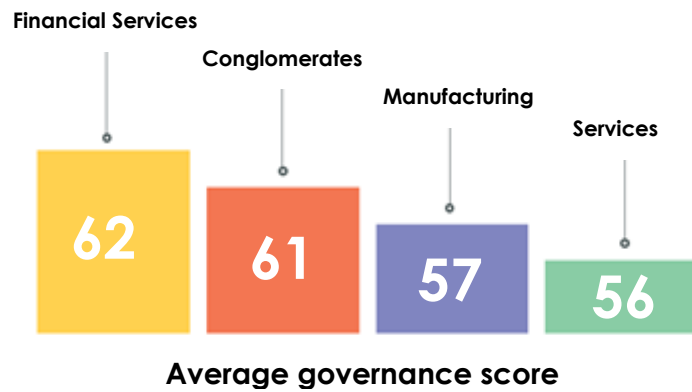
KEY OBSERVATIONS



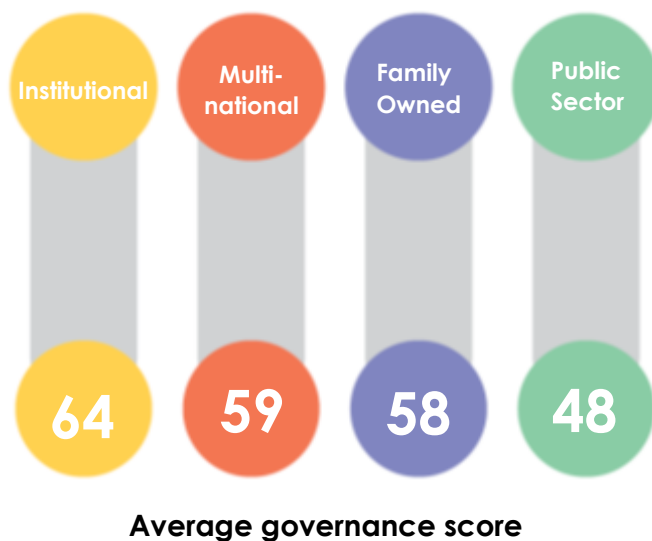
There is an inverse correlation between the governance scores and the dominant shareholder's equity holding



Companies in the Financial Services sector tend to have a better score than other companies in the index. Part of this may be attributed to the stronger governance thresholds demanded of them by stakeholders.



Institutionally owned companies tend to have better governance scores



7. SCORECARD QUESTIONNAIRE

Each of the 70 questions in the scorecard looks at a specific aspect of governance. As mentioned earlier, the questions have been grouped into four categories to reflect the broader G20/OECD principles.

For ease of usage and consistent interpretation of the model, a questionnaire template has been developed. The template follows a uniform structure where each question has been split into the following sections:



Guiding Principle

Lists out the underlying governance tenet. Irrespective of the scoring key and the response guide, the assessors need to check if the company has followed the principle in letter and in spirit. Companies which have taken additional steps to abide by the principle may be awarded points even if these steps are not mentioned specifically in the scoring key.



Question Details

Lists out the category under which the question is covered, the weightage for the question in the overall score, and whether the question is applicable for all companies. The weightage of the question is computed assuming all questions are applicable for the company. In a company, if some questions are not applicable, the weightages of the other questions will adjust accordingly.



Scoring Key

Lists out situations based on which the assessors will determine the score for each question.



How to score

A detailed guide on the specific issues the assessors must keep in mind while scoring on that question. While the list may not always be exhaustive, it factors in the most relevant practices that are commonly observed in the Indian markets. The assessors also need to watch out for evidence which may indicate that the principles behind the question are followed in letter but not in spirit.



Verification sources

These are the sources from which assessors may extract information pertaining to that question. The sources include stock exchange filings, annual reports, meeting notices, charter documents, company website, and for some questions, even third-party websites. The list for a question indicates the most likely sources from where information pertaining to that question may be retrieved. But this list is not meant to be exhaustive and the assessors need to scrutinize if the information is available in any other official company documents. Quite often, the relevant information is present across multiple documents and all of that need to be considered.



Leadership example

In order to highlight best governance practices in a particular area, most questions include a leadership example. The example is meant to serve as a reference guide for assessors on practices which will warrant maximum points for the question.

Q1. Has the company taken steps to ensure that the basic rights of shareholders are clear and unequivocal?

SCORING KEY

Score: 0

There is evidence of violation of existing law

Score: 1

No specific steps taken by the company beyond compliance with the law

Score: 2

Company has taken steps to educate shareholders on their basic rights or has implemented measures to facilitate the exercise of shareholder rights

HOW TO SCORE

Assessors need to check for additional steps taken by the company to help shareholders exercise their franchise.

Possible steps that may be taken by companies to go beyond the regulatory directives include:

- listing out all shareholder rights in company documents, OR
- conducting shareholder education programs on their rights, OR
- disclosing the process to be followed by shareholders while exercising their rights, OR

The list is only indicative of possible scenarios and is not meant to be exhaustive. Any good practice adopted by the company, beyond regulatory measures, to ensure easy facilitation of shareholder rights must be considered while scoring on this question.

GUIDING PRINCIPLE

The basic shareholder rights are enshrined in Indian corporate law. However, companies must take efforts to go beyond regulations and educate shareholders on their basic rights and implement measures to facilitate the exercise of such rights.

QUESTION DETAILS

	Category	Rights & equitable treatment of shareholders
	Weight	1.58%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Charter documents
- Shareholder meeting notices
- Business Responsibility Report
- Sustainability Report

LEADERSHIP EXAMPLE

Bharti Airtel has published an [Investor Handbook](#) on its website, which lists out shareholder rights and a detailed FAQ for reference.

Q2. Did the previous AGM allow sufficient time for shareholder engagement?

SCORING KEY

Score: 0

There is no evidence of time provided

Score: 1

There was evidence of time being allocated for shareholder engagement in the minutes or the AGM webcast

Score: 2

There was evidence of time being allocated for shareholder engagement in the minutes or the AGM webcast and the details of shareholder engagement/queries and responses were provided

HOW TO SCORE

The assessors must look for minutes/proceedings or AGM webcast on the company website and check if there is any evidence of shareholder discussion and participation.

A company will score maximum points on this question if the issues/queries raised by shareholders in the AGM and the management responses to each of those issues/queries have been listed out in the minutes or the AGM proceedings are available through the webcast.

GUIDING PRINCIPLE

Corporate democracy gives shareholders an unalienable right to be heard and participate in general meetings. Companies therefore need to provide shareholders with sufficient time in the AGM to ask questions.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Minutes of general meeting
- Meeting webcast

LEADERSHIP EXAMPLE

L&T has provided [detailed minutes](#) of its last AGM, which highlights all the issues raised by shareholders and the management responses to each of the shareholder queries.

Q3. Can a minority shareholder, with less than 10% stake, propose an agenda item in a shareholder meeting?

SCORING KEY

Score: 0

No, shareholders, in aggregate, need to hold at least 10% stake to propose agenda items

Score: 2

Yes, the company has taken steps to ensure that even shareholders who hold less than 10% stake (in aggregate) can propose any agenda item

HOW TO SCORE

Companies Act 2013 requires the right to be provided to shareholders only if they collectively have more than 10% voting rights. The assessor needs to check if the company has specified a lower threshold in any of its publicly available documents.

If no evidence is found in any of the publicly available documents, the threshold will be deemed to be fixed at 10% and no points will be awarded.

Since, in the Indian context, all shareholders can propose a candidate on the board, resolutions pertaining to director appointments will not be considered for this question.

GUIDING PRINCIPLE

Shareholders must be able to propose resolutions in general meetings.

While it is reasonable for companies to specify a minimum shareholding threshold to be eligible to propose a resolution, it must not become a deterrent for minority shareholders to place meaningful suggestions for discussion on the meeting agenda.

Globally, companies generally have a shareholding threshold of 2-5% for proposing resolutions at general meetings.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual Report
- Charter Documents

LEADERSHIP EXAMPLE

Lenovo allows shareholders holding 2.5% of the total voting rights or a collection of 50 shareholders to [propose a resolution](#) to be taken up at the annual general meeting.

Q4. Was there any evidence of combining multiple matters or issues in a single resolution?

SCORING KEY

Score: 0

Yes, there is evidence of multiple resolutions being clubbed together

Score: 1

Yes, only one resolution was clubbed

Score: 2

No, all matters were presented to shareholders through separate resolutions

GUIDING PRINCIPLE

If resolutions, which are presented to shareholders, club multiple issues, it becomes difficult for shareholders to take an independent voting call on each proposal.

To enable shareholders to effectively exercise their voting rights, companies must ensure that critical issues are presented through separate resolutions to shareholders.

HOW TO SCORE

While it is not possible to list out all possible scenarios where resolutions are clubbed together, the following list may be used as a guiding reference by the assessor:

- Appointment and remuneration resolutions being combined in a single resolution
- Appointments of several directors/auditors being combined in one single resolution instead of separate ones for each director
- Equity and debt raising resolutions being combined in a single resolution
- Mortgage and borrowing resolutions being combined in a single resolution

The list is only indicative of possible scenarios and is not meant to be exhaustive. The assessors may need to use their own judgement to determine if the company has clubbed critical issues under one resolution.

A look back period of one year will be considered for this question.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual Report
- Shareholder meeting notices

LEADERSHIP EXAMPLE

Given the nature of the question, a leadership example will not be applicable here.

Q5. Was shareholder participation facilitated for all shareholders at the previous AGM in the past one year?

SCORING KEY

Score: 0

No evidence of facilities/opportunities being provided

Score: 1

Yes, shareholders could submit questions in writing before the meeting

Score: 2

Yes, there is evidence of facilities being provided for shareholder participation through video-conferencing or tele-conferencing

HOW TO SCORE

The assessors must first check if the meeting notice lists out the process for shareholders to submit their questions in advance to the company.

A company will score maximum points in this question if it provides video/tele-conferencing facilities for shareholders to dial in and raise their issues/queries to the board. Evidence of such facilities must be present in the meeting notice, meeting minutes/webcast or in the scrutinizers report filed with the stock exchanges after the meeting.

GUIDING PRINCIPLE

Given the widespread adoption and usage of digital technology, companies must seek to remove physical barriers to participation in general meetings.

Allowing video/tele-conferencing facilities for shareholders to participate helps create improved channels of market communication.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual Report
- Minutes/Webcast of meeting
- Shareholder meeting notices
- Scrutinizers report
- Stock exchange filings

LEADERSHIP EXAMPLE

In its FY16 AGM, Infosys allowed shareholders to dial-in and ask questions to the board. Further, the [webcast](#) and [detailed transcript](#) of the AGM were made available on the website after the AGM.

Q6. Did the company provide proxy and e-voting facility for all shareholder meetings in the past one year?

SCORING KEY

Score: 0

Such facilities were not provided for all AGMs, EGMs and Postal Ballots

Score: 1

Such facilities were provided for all AGMs, EGMs and Postal Ballots, but not provided for Court Convened Meetings

Score: 2

Such facilities were provided for all shareholder meetings

HOW TO SCORE

The assessors need to check if the process for appointing proxies and authorized representatives is clearly stated in the shareholder meeting notice (not applicable for Postal Ballots). The proxy nomination form must be attached with the notice or uploaded separately on the website.

Further, the company must provide shareholder the opportunity to vote electronically through the depository platforms. The e-voting instructions must be clearly articulated in the meeting notice.

A look back period of one year will be considered for this question.

GUIDING PRINCIPLE

The objective of facilitating shareholder participation can be promoted further by using electronic voting platforms and allowing proxies and authorized representatives to vote on behalf of shareholders in absentia.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Company website
- Shareholder meeting notices
- Stock exchange filings

LEADERSHIP EXAMPLE

Ultratech Cement has provided e-voting facilities for all its meetings, including its CCM held on 26 September 2016.

Q7. Did all board members attend the previous AGM?

SCORING KEY

Score: 0

Not all board members attended the meeting. Further, either the Chairperson of the board, or the CEO, or the Chairperson of Audit Committee did not attend the meeting

Score: 1

Not all board members attended the meeting, but the Chairperson of the board, the CEO and the Chairperson of the Audit Committee all attended the meeting

Score: 2

The entire board attended

HOW TO SCORE

The attendance details of directors must be recorded in the minutes or outcome of the AGM. If the minutes/outcome are not available (and there is no other documented evidence for director attendance), companies will not score any points on this question.

A company will score maximum points on this question only if all the directors (board members as on the date of the AGM) attended the AGM.

Note: The annual report of the company only states the director attendance at the previous AGM and not the latest AGM. For example, the FY16 annual report will list out attendance details for the FY15 AGM. Hence the attendance data in the annual report will not be considered.

GUIDING PRINCIPLE

Board members need to attend all general meetings to give shareholders the opportunity to communicate with them directly.

Their presence and availability during shareholder interactions fosters greater trust and enforces board accountability.

QUESTION DETAILS

	Category	Rights & equitable treatment of shareholders
	Weight	1.58%
	Type	Applicable to all

VERIFICATION SOURCE

- Minutes of meeting
- Shareholder meeting notices
- Stock exchange filings

LEADERSHIP EXAMPLE

In its [2016 proxy statement](#), Walmart's board states that it has adopted a policy stating that all their directors are expected to attend the company's annual shareholder meeting.

Q8. Did the external auditors attend and participate in the previous AGM?

SCORING KEY

Score: 0

There is no evidence of auditor attendance at the AGM

Score: 1

Yes, the auditors attended the AGM

Score: 2

The auditors attended and provided their views on the financials and the accounting practices adopted by the company

HOW TO SCORE

The attendance details of auditors must be recorded in the minutes or outcome of the AGM. If the minutes/outcome are not available (and there is no other documented evidence for auditor attendance), companies will not score any points on this question.

A company will score maximum points on this question only if the auditors attended the AGM and presented their views on the financials/accounting practices or to specific queries raised by shareholders.

GUIDING PRINCIPLE

Good governance requires auditors to attend AGMs and actively participate in addressing shareholder concerns and clarifications regarding financial statements.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Minutes of meeting
- Shareholder meeting notices
- Stock exchange filings

LEADERSHIP EXAMPLE

In its [notice of meeting](#), BHP Billiton Plc allows shareholders opportunities to ask questions to the auditor in its AGM. Further, the company allows the shareholders to submit questions for the auditors in advance through a question form included with the proxy form.

Q9. Within how many months of the fiscal year end was the last AGM held?

SCORING KEY

Score: 0

More than six months after the fiscal year end

Score: 1

Within four-six months of the fiscal year end

Score: 2

Within four months of the fiscal year end

GUIDING PRINCIPLE

For timely communication and interaction with shareholders, companies must institute systems and processes to ensure that its annual general meetings are held shortly after the fiscal year end.

Globally, companies tend to host their AGMs within four months of the fiscal year end.

HOW TO SCORE

The timeline for the AGM may be computed as:

$$T = \text{Date of AGM} - \text{FYE}$$

FYE = 31 March, for companies with a March year-end

FYE = 31 Dec, for companies with a Dec year-end

FYE = 30 Sep, for companies with a Sep year-end

FYE = 30 Jun, for companies with a Jun year-end

IF, $T < 4$ months, score 2

IF, $4 \text{ months} < T < 6$ months, score 1

IF, $T > 6$ months, score 0

The date of the AGM is to be checked from the shareholder meeting notice or from the AGM outcome documents.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Shareholder meeting notices
- Stock exchange filings

LEADERSHIP EXAMPLE

Crisil Limited has held its AGM within four months of its fiscal year end in each of the last five years.

Q10. Were any preferential warrants issued to the controlling shareholders in the past one year?

SCORING KEY

Score: 0

Yes, preferential warrants were issued

Score: 1

Yes, but preferential warrants were issued pursuant to a debt restructuring scheme

Score: 2

No preferential warrants were issued

HOW TO SCORE

The assessors need to check for board meeting outcomes, stock exchange filings and resolutions proposed in shareholder meetings to assess if preferential warrants were granted to the controlling shareholders.

A company will score maximum points on this section if it has not issued any preferential warrants to the controlling shareholders in the past one year.

If, however, these warrants were issued pursuant to a debt restructuring scheme, the assessors will need to take that into account before scoring.

A look back period of one year will be considered for this question.

GUIDING PRINCIPLE

In the Indian context, preferential warrants (an instrument similar to stock options) allow the beneficiary to pay 25% upfront to subscribe, with the balance payment due after 18 months. This payment is optional and may not be brought in, if the stock price falls during this 18-month period.

If these warrants are not exercised, the quantum of money raised is restricted to 25% of the stipulated amount. This may impact the fund-raising plans of the company and consequently reduce the predictability of operations.

QUESTION DETAILS

	Category	Rights & equitable treatment of shareholders
	Weight	1.58%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual Report
- Shareholder meeting notices
- Stock exchange filings

LEADERSHIP EXAMPLE

Given the nature of the question, a leadership example will not be applicable here.

Q11. Do the charter documents of the company give additional rights to a subset of shareholders?

SCORING KEY

Score: 0

The latest charter documents are not available or they give control related rights to certain non-controlling shareholders or give disproportionate voting power (in any form) to the controlling shareholders

Score: 1

The latest charter documents are available and certain non-controlling shareholders only get board-nomination rights or transaction related rights

Score: 2

The latest charter documents do not have any clauses which give additional rights (in any form) to any non-controlling shareholder or give disproportionate voting power (in any form) to the controlling shareholders

HOW TO SCORE

Based on the details available, the assessors need to classify the additional rights, if any, into three buckets:

- Board nomination rights: Right to appoint nominees (up to two directors) on the board
- Transaction related right: These include right of first refusal and tag-along rights
- Control related rights: These include the right to veto board decisions, right to appoint Chairperson, right to appoint multiple (>2) board members, and the right to decide remuneration of key executives (in addition to what is approved by other shareholders)

The assessor also needs to check for clauses which allow the controlling shareholder to exercise disproportionate voting power (in any form).

Notwithstanding, if rights are given to lenders/creditors pursuant to a debt restructuring scheme or is included as enabling provision in case of defaults, the assessors must take that into consideration before scoring.

GUIDING PRINCIPLE

The charter documents of a company must ensure that all shareholders can only exercise a degree of control and influence which is proportionate to their equity ownership in the company.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Charter documents
- Annual report
- Stock exchange filings

LEADERSHIP EXAMPLE

Hero Motocorp has put out its charter documents on its website. The charter documents do not give any special rights to any non-controlling shareholder.

Q12. Does the company have a policy requiring all related party transactions (RPTs) to be dealt only by non-conflicted board members?

SCORING KEY

Score: 0

No, or the policy is not disclosed

Score: 1

Yes, but the decision on whether the director must abstain is left to the discretion of the Chairperson or the board

Score: 2

Yes, there is a policy for abstention from the decision-making process (including discussions)

HOW TO SCORE

Details for this question are generally available in the company's code of conduct, related party transaction policy or in the charter documents. If there is no evidence available, the company will not score any points on this question.

To score maximum points on this section, the company must clearly state that all interested directors will abstain from both discussing and voting on concerned issues.

GUIDING PRINCIPLE

Companies must have mechanisms to ensure that the conflicts of interest inherent in related party transactions (RPTs) are adequately addressed.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Code of conduct
- Related Party Transaction Policy
- Charter Documents
- Company Website

LEADERSHIP EXAMPLE

ICICI Bank's [related party transaction policy](#) outlines approval mechanisms for related party transactions. Directors who have a potential interest in any related party transaction are required to abstain from any discussion and voting on such transactions.

Q13. Does the company have in place a system, including policies and procedures, to facilitate disclosures of conflicts of interest by stakeholders?

SCORING KEY

Score: 0

No, or the policies are not disclosed

Score: 1

Yes, the policies clearly list out the process for stakeholders to disclose their conflicts of interest but does not cover suppliers and vendors

Score: 2

Yes, the policy clearly lists out the process for all stakeholders to disclose their conflicts of interest

HOW TO SCORE

The assessor must check for the possible areas of conflict:

- Board cross linkages
- Executive directors in Nomination and Remuneration Committee
- Controlling shareholders/executive directors in the Audit Committee
- Association (directly/indirectly) with competitors
- Association with key suppliers/vendors
- RPTs with entities associated with directors and senior executives

The list is only indicative and the assessors may need to use their own judgement while scrutinizing structures which may result in a conflict of interest.

GUIDING PRINCIPLE

The robustness of internal control systems gets measured by its effectiveness in monitoring and disclosing potential conflicts of interests of all stakeholders. This will ensure that corporate actions are taken with complete transparency and in the best interests of the company.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual Report
- Code of conduct
- Related Party Transaction Policy
- Charter Documents
- Company Website

LEADERSHIP EXAMPLE

Wipro has embedded a detailed Conflict of Interest Policy in its [Code of Conduct](#) documents for employees and [suppliers](#). The policies list out possible areas of conflict and its resolution measures.

Q14. Did the company undertake any related party transaction in the past three years, which seemed to be prejudicial to the interests of minority shareholders?

SCORING KEY

Score: 0

Yes, the company had related party transactions which seemed to be prejudicial to the interests of minority shareholders

Score: 2

No, the company did not have any related party transactions which could be prejudicial to the interests of minority shareholders

GUIDING PRINCIPLE

Related party transactions (RPT) must be conducted in a manner that protects the interests of minority shareholders.

For this, board must ensure that all aspects of the RPTs are fully disclosed, including details on its nature, frequency, materiality, quantum and pricing terms.

HOW TO SCORE

Prejudicial transactions will include any RPT which:




- Is not at arm's length pricing, or
- Is not on commercial terms, or
- Amounts to more than 10% of revenues, but is not fully disclosed (nature, frequency, materiality, quantum and pricing terms) to stakeholders, or
- Is not managed as per the RPT policy

To score points on this question, a company must disclose its RPTs publicly. Evidence of such transactions may be obtained through media reports, shareholder meeting notices, annual report, investor transcripts, and minutes of meetings.

If any of the RPT resolutions in the past three years were defeated or were voted against by a majority of minority shareholders, the assessors will need to take that into consideration while scoring.

If there is no clear evidence, the company will score maximum points on this section.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable only for companies which have undertaken material RPTs

VERIFICATION SOURCE

- Code of conduct
- Related Party Transaction Policy
- Charter Documents
- Company Website

LEADERSHIP EXAMPLE

Given the nature of the question, a leadership example will not be applicable here.

Q15. Does the company pay out disproportionately high royalty to its group entities?

SCORING KEY

Score: 0

Yes, the royalty payout is high compared to net profits and growth in profitability

Score: 1

Yes, the royalty payout is either high compared to net profits or growth in profitability

Score: 2

No, the royalty payouts were not disproportionate

HOW TO SCORE

Royalty payouts include payments for transfer of technology, and usage of trademark/brand name.

For this question, only royalty payouts to the promoter group will be considered (payments made to government entities or royalty paid on account of franchisee agreements will be excluded).

Royalty pay-outs will be considered disproportionate as per the profit threshold or royalty growth threshold:

Profit threshold: Royalty must be less than 20% of net profits in each of the past three fiscal years

Growth threshold: Growth in royalty must be less than growth in profits in the past three fiscal years. For example, if an assessment is being conducted anytime in FY17, the following formula is to be used:

$$G_{\text{Roy/Profits}} = \frac{\text{(FY16 value - FY14 value)}}{\text{FY14 value}}$$

A company will score maximum points only if the profits threshold is met and $G_{\text{Profits}} > G_{\text{Roy}}$.

GUIDING PRINCIPLE

While royalty payments are a legitimate payout, they must be proportionate to the benefits derived by the company. The increase in royalty must be in line with the improvement in the performance of the company.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable only for companies which have paid royalty to group

VERIFICATION SOURCE

- Annual Report
- Stock Exchange Filings

LEADERSHIP EXAMPLE

The Tata Group has signed a [brand equity agreement](#) with its group companies as per which, depending on the degree of usage of the Tata brand, the royalty payouts from group companies will be restricted to a specified percentage of turnover. Further, these payouts will be restricted to a maximum of Rs.750 mn and 5% of profits – ensuring that the fees are not excessive and are linked with operational performance.

Q16. In the past, has the company (or its subsidiaries) provided financial assistance to promoter entities which had to be written off or were deemed unlikely to be recovered?

SCORING KEY

Score: 0

Yes, some loans/investments have been written off or classified as doubtful

Score: 2

No loans/investments have been written off or classified as doubtful

GUIDING PRINCIPLE

Due to business compulsions, companies may extend loans to or make investments in promoter entities.

However, such financial assistance must be disclosed and closely monitored to mitigate concerns on conflict of interest.




HOW TO SCORE

The assessors need to check for loans given or investments made in promoter entities (specified in the related party transactions section of the annual report).

The company will score maximum points in this question if no such financial assistance had to be written-off or provided for in the financial statements in any of the past three years.

This question will not be applicable for companies which have not extended any financial assistance in the past three years and there have been no instances of write-offs during this period.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable only for companies which have provided financial assistance to promoter entities in past three years

VERIFICATION SOURCE

- Annual Report
- Stock Exchange Filings

LEADERSHIP EXAMPLE

Given the nature of the question, a leadership example will not be applicable here.

Q17. Has the company been transparent while undertaking any M&A, restructuring, or slump sale?

SCORING KEY

Score: 0

No, there have been instances where the fairness opinion was not disclosed for a transaction

Score: 1

Yes, but only to a limited extent - it has always disclosed the fairness opinion, but has not disclosed the independent valuation report for some transactions

Score: 2

Yes, the company has always conducted and publicly disclosed the fairness opinion and the independent valuation report

HOW TO SCORE

This question covers only those actions for which shareholder approval was required.

The company needs to publicly disclose the independent fairness opinion and valuation reports on the transaction before presenting it to shareholders for their vote.

If the transaction is with a third party (which is not a related party), and company has confirmed that the consideration is based on a negotiated price, one point may be given even if no fairness opinion/valuation report is provided.

Apart from valuation, if the company has not provided critical strategic details on the restructuring, the assessors will need to take a closer look and use their subjective opinion to decide on the scoring based on the transparency levels.

GUIDING PRINCIPLE

Given the critical nature of such corporate actions, the company must devise strong rules and procedures to govern and oversee M&As, restructurings and slump sales of assets.

It needs to ensure that such actions are independently validated and shareholders have sufficient information to take an informed view on the decision.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable only for companies which have undertaken such activities in the past three years

VERIFICATION SOURCE

- Shareholder Meeting Notices
- Stock Exchange Filings
- Company website

LEADERSHIP EXAMPLE

While transferring its Multimedia Content Management business through a slump sale to a subsidiary, HT Media's published a detailed [valuation report](#) with granular details on the valuation metrics and cash flow projections for the business.

Q18. Does the company have a policy to publicly disclose the reasons for pledging of shares by the controlling shareholders?

SCORING KEY

Score: 0

No, the reasons for pledging are not disclosed publicly

Score: 2

Yes, the company has provided reasons for pledging of shares by the controlling shareholders

HOW TO SCORE

Indian companies generally disclose the quantum of shares pledged by the promoters. But for greater clarity, they also need to provide a rationale for pledging.

A company will score maximum points on this question if the reasons for creation of fresh pledges in the past twelve months are publicly available.

GUIDING PRINCIPLE

Minority shareholders have the right to know if the risks of a potential change in control of the company. Therefore, companies must disclose and explain to its shareholders the reasons for which the controlling shareholders have pledged their shares.

QUESTION DETAILS

 Category	Rights & equitable treatment of shareholders
 Weight	1.58%
 Type	Applicable only for companies where controlling shareholders have pledged shares

VERIFICATION SOURCE

- Shareholder Meeting Notices
- Stock Exchange Filings
- Company website

LEADERSHIP EXAMPLE

Mahindra & Mahindra Ltd has disclosed the reasons for pledging of its equity shares in its [filings](#) with the stock exchanges.

Q19. Is there evidence of structures or mechanisms that have the potential to violate minority shareholder rights?

SCORING KEY

Score: 0

Yes, there is evidence of a structure/mechanism that could violate minority shareholders' rights

Score: 2

No, there is no evidence of any structure/mechanism that could violate minority shareholders' rights

HOW TO SCORE

The assessors will need to check for:

- Pyramidal holding structures, which results in disproportionate voting power of the promoter
- Opaque holding structures where the ultimate beneficial ownership cannot be fully ascertained
- Cross holdings between the company and entities of its promoter group
- Companies which have many inactive or nonfunctional subsidiaries/Joint Ventures/associate companies
- Companies which have established many subsidiaries/Joint Ventures/associate companies with promoter entities with no clear rationale

The list is only indicative and the assessors may need to use their own judgement while scrutinizing structures which could violate minority shareholders' rights.

GUIDING PRINCIPLE

The holding structure of the company, its controlling power over its subsidiaries, joint ventures, and associate companies must be transparent and equitable.

Further, under any given holding structure, controlling shareholders must only be able to exercise a level of control which is proportionate to their shareholding.

QUESTION DETAILS

	Category	Rights & equitable treatment of shareholders
	Weight	1.58%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual Report
- Stock Exchange Filings
- Company website
- Charter Documents

LEADERSHIP EXAMPLE

Given the nature of the question, a leadership example will not be applicable here.

Q20. Is the company committed towards developing stakeholder relationships?

SCORING KEY

Score: 0

There is no Stakeholders' Relationship Committee or it meets less than 4 times a year

Score: 1

The committee meets at least 4 times a year, but has less than 2/3 independent directors

Score: 2

The committee meets at least 4 times a year, has at least 2/3 independent directors, and there is a policy for developing stakeholder relationships

GUIDING PRINCIPLE

Companies must recognize that the contribution of stakeholders is crucial towards ensuring competitiveness and sustainability. To facilitate such engagement, Indian companies must institute a Stakeholders' Relationship Committee (SRC) that focusses on improving the engagement with stakeholders – investors, lenders, customers, and suppliers. To proactively encourage engagement, companies must publicly articulate the importance of stakeholders to their eco-system.

HOW TO SCORE

The assessor must check for the latest composition of the SRC. The review will consider any new appointments and resignations from the SRC after the last annual report.




If the SRC composition in the company website lists the name of any director who, as per stock exchange filings, has resigned from the board, the committee composition will adjust accordingly (by excluding such directors).

The meeting frequency will be reviewed based on the number of SRC meetings in the previous fiscal year (as stated in the annual report).

To score maximum points on this question, the company must provide at least two of the following references to their stakeholder engagement policy/process in the company documents:

- Stakeholder rights
- Stakeholder grievance redressal
- Stakeholder communication

QUESTION DETAILS

-  **Category** Role of stakeholders
-  **Weight** 1.11%
-  **Type** Applicable to all

VERIFICATION SOURCE

- Annual report
- Quarterly compliance filings
- Company website
- Business Responsibility Report

LEADERSHIP EXAMPLE

ITC, in its [Sustainability Report](#), has listed out a structured framework to engage with stakeholders and address their concerns

Q21. Does the company have publicly disclosed policies and/or mechanisms to address the health, safety, and welfare of employees?

SCORING KEY

Score: 0

The policies are not publicly disclosed and the company has not provided information on the number of employee accidents or sexual harassment incidents

Score: 1

The policies are publicly disclosed or the company has provided information on the number of employee accidents and sexual harassment incidents

Score: 2

The company has disclosed its health, safety and sexual harassment policies and has provided information on the number of employee accidents and sexual harassment incidents

HOW TO SCORE

To measure the robustness of the policies, the assessor needs to check if:

- There is a stated commitment by the company to adopt measures and processes that focus on the prevention of occupation-related injuries, accidents and illnesses
- The company provides health, safety and sexual harassment trainings to its employees
- The safety and health policies cover the company's suppliers and vendors
- The sexual harassment policy lists out details on the reporting, redressal and enquiry process

In addition, to score maximum points, the company must report the number of employee accidents and sexual harassment cases each year to stakeholders – and the three-year trend should have a declining trajectory.

GUIDING PRINCIPLE

Employee welfare measures help boost employee morale and lead to improved productivity. Companies must therefore strive to disclose their employee welfare policies and demonstrate their commitment towards providing a safe and healthy working environment.

QUESTION DETAILS

	Category	Role of stakeholders
	Weight	1.11%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Sustainability report
- Stock exchange filings
- Media reports

LEADERSHIP EXAMPLE

Tata Motors has put out a detailed [Sexual Harassment Policy](#), which highlights the incidents which may construed as sexual harassment, details of the redressal committee and the entire redressal mechanism. They also have a [Health and Safety policy](#), which recognizes safety as an integral part of the company's operations.

Q22. Does the company have in place policies and practices which explain its supplier/contractor selection and management processes?

SCORING KEY

Score: 0

Policies are not publicly available

Score: 1

Policies are publicly available either for supplier/contractor management or selection

Score: 2

Policies are publicly available for supplier/contractor management and selection

HOW TO SCORE

The assessor must establish if the company has clearly articulated policies for supplier/contractor management and selection.

A good supplier/contractor selection policy must include:

- Supplier Accountability
- Code of conduct and Ethics policies for suppliers
- Environmental Protection and Human Rights Policies for suppliers
- Health and Safety policies for suppliers

A good supplier/contractor management policy must include:

- Supplier Audit
- Supplier Improvement programs
- Supplier trainings and education programs
- Supplier Empowerment

The above list is only indicative and the assessors must use their own judgement to determine if the policies are effective and meaningful.

GUIDING PRINCIPLE

Companies must have well-articulated supplier or contractor selection and management policies. This will help ensure that a) the company is transparent in supplier selection, b) the company is objective and fair while dealing with its suppliers and c) other stakeholders are aware of the rules of engagement between the company and its suppliers/contractors.

QUESTION DETAILS

	Category	Role of stakeholders
	Weight	1.11%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Business Responsibility report

LEADERSHIP EXAMPLE

On its website, Philips has clearly laid out [Supplier Sustainability Policies](#), which covers supplier accountability, labour and human rights, and safety standards.

Q23. Has the company demonstrated commitment to protect the rights of its lenders, creditors, and suppliers?

SCORING KEY

Score: 0

The company has made delayed repayments to lenders

Score: 1

The company has made timely repayments to lenders, but has made delayed repayments to suppliers or to other creditors

Score: 2

Payments are made on time and there is no evidence of late payments to lenders, suppliers or to other creditors

HOW TO SCORE

The company's commitment to protect the rights of lenders, creditors and suppliers is being measured by the timeliness of repayment of financial obligations.

The look-back period for this question is three years (FY16, FY15 and FY14).




The assessor must check the independent auditors' report and the notes to the annual financial statements to establish whether the company has made any delayed repayments to its lenders, creditors or suppliers over the past three years. The latest credit rating report, if available, may also be referred to while scoring on this question.

For this question, repayments are being used as a proxy for stakeholder commitment. The assessors must take into account any liquidity constraints (which results in conversion of debt to equity) and other obvious violations (for example, media reports of running sweat shops) before scoring.

GUIDING PRINCIPLE

Business relationships between the company and its lenders, creditors and suppliers are supported by contractual obligations. Failure to meet these obligations may indicate lack of an effective framework to enforce creditor/lender/supplier rights.

QUESTION DETAILS

	Category	Role of stakeholders
	Weight	1.11%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Stock exchange filings
- Credit rating reports

LEADERSHIP EXAMPLE

Given the nature of the question, a leadership example will not be applicable here.

Q24. Does the company demonstrate a commitment to strong ethical practices and is clearly anti-corruption and anti-bribery?

SCORING KEY

Score: 0

No ethics policy evident or publicly available

Score: 1

Ethics policy is publicly available but it does not mention anti-corruption or anti-bribery measures

Score: 2

Ethics policy is publicly available on website and the policy mentions the company is against any form of corruption or bribery

HOW TO SCORE

The assessor will need to establish if the company has disclosed an ethics policy/code of conduct. Ideally, the policy must cover most of the following:

- Core values of the company
- Ethical standards expected from employees and directors
- Dealing with conflicts of interest
- Dealing with third parties
- Compliance with laws and regulations
- Protection of assets and information management
- Disciplinary action in case of failure to adhere to the ethics code

In addition, the policy must clearly state that the company is against bribery and corruption in any form. The assessor may also consider if the company is a signatory to a well-known global anti-corruption framework or code of ethical conduct while scoring on this question.



In case there is any known violation of the policy or instances where the company has been accused of bribery or corruption, or ethical violations, the company will not score any points.

GUIDING PRINCIPLE

Unethical and illegal practices not only violate the rights of stakeholders but also put the company's reputation at risk and increase the probability of future financial liabilities.

While bribery/corruption in any form is prohibited by law, the company must publish an ethics policy and clearly articulate its stance on corruption and bribery.

QUESTION DETAILS

 Category	Role of stakeholders
 Weight	1.11%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Code of conduct/ethics

LEADERSHIP EXAMPLE

The Coca Cola Company has a global [Anti-Bribery](#) policy along with a [Code of Business Conduct](#) for all its employees.

Q25. Does the company demonstrate its commitment to being a good corporate citizen?

SCORING KEY

Score: 0

The company has not spent any amount on CSR in the past one year

Score: 1

The company has spent on CSR, but the CSR spend is less than 2% of average profits for the last three years

Score: 2

The company's CSR spend is at least 2% of average profits for the last three years

HOW TO SCORE

The assessor must evaluate if the CSR related spending disclosed by the company in its annual report is above 2% of average net profit over the last three years.

If the company has experienced losses on average over the past three years and still spend on CSR, the assessor may assign maximum points for this question.

GUIDING PRINCIPLE

One of the ways in which companies can indicate their commitment towards the community is through their corporate social responsibility (CSR) related spending. Indian laws currently require companies to either spend 2% of their average net profits of the last three years on CSR or explain why they have not complied with this provision.

QUESTION DETAILS

-  **Category** Role of stakeholders
-  **Weight** 1.11%
-  **Type** Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Stock exchange filings

LEADERSHIP EXAMPLE

In FY16, Hero MotoCorp Limited has spent [2.23% of its average three-year net profits on CSR](#).

Q26. Does the company have processes in place to implement and measure the efficacy of its CSR programs?

SCORING KEY

Score: 0

The company does not have a CSR committee or the areas of CSR spending have not been disclosed

Score: 1

The company has a CSR committee and the areas of CSR spending have been disclosed, but the company has not disclosed details on CSR impact assessment

Score: 2

The company has a CSR committee, the areas of CSR spending have been disclosed, and the company has disclosed details on CSR impact assessment

HOW TO SCORE

A company will obtain maximum points on this question if it has:

- Formed a CSR committee with minimum three directors, of which one must be independent
- Disclosed areas of CSR spending
- Conducted an impact assessment of its CSR programs and disclosed the results to stakeholders

Impact assessment studies must include details on:



- Coverage of the CSR programs
- Beneficiary profile
- Economic benefits for the company and for the beneficiaries (if applicable)

The above list is not exhaustive and assessors must use their judgement in determining whether the impact assessment studies convey meaningful information to external stakeholders.

GUIDING PRINCIPLE

The company must demonstrate its commitment towards CSR by forming an effective CSR committee and by disclosing details on its CSR activities and spends. Beyond undertaking CSR for regulatory compliance, companies must focus on the impact of their CSR efforts to evaluate the relationship between the company and the communities it operates in.

QUESTION DETAILS

 Category	Role of stakeholders
 Weight	1.11%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Corporate Social Responsibility Report

LEADERSHIP EXAMPLE

Axis Bank has publicly disclosed [sectoral impact assessments](#) for each of its CSR interventions.

Q27. Does the company have policies and processes in place to handle investor grievances?

SCORING KEY

Score: 0

The company does not have a policy or the policy is not disclosed publicly

Score: 1

There is a policy for handling investor grievances, but it does not provide any grievance escalation mechanism

Score: 2

There is a policy for handling investor grievances, which provides details on the grievance escalation and resolution mechanism

HOW TO SCORE

The assessors first need to check for an investor grievance policy. For some companies, this policy is a separate document and for others, it is part of the code of conduct or business responsibility report.

While reviewing the policy, the assessors need to check if the company has:

- Named the individual/team to whom the complaint needs to be addressed
- Established an ombudsperson to deal with the complaints
- Listed out a process to be followed by the company for handling investor complaints
- Provided a grievance escalation and resolution mechanism

The assessor must also consider the percentage of unresolved investor complaints at the end of each quarter before scoring on this question.

GUIDING PRINCIPLE

Shareholders of a company should be able to communicate their grievances and obtain redressal for violation of their rights. To facilitate this process, companies must have a transparent framework for handling investor grievances, which will help investors register and escalate their grievances to the relevant authorities.

QUESTION DETAILS

-  **Category** Role of stakeholders
-  **Weight** 1.11%
-  **Type** Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Stock exchange filings

LEADERSHIP EXAMPLE

MOIL has instituted a [Grievance Redressal Policy](#) for investors. The policy provides information on the mechanism for grievance handling, along with details on how investors can file their complaints.

Q28. Does the company have an effective whistle-blower mechanism for stakeholders to report complaints and suspected or illegal activities?

SCORING KEY

Score: 0

There is no disclosed mechanism or policy

Score: 1

There is an effective whistle-blower policy for employees, but it does not cover external stakeholders

Score: 2

There is an effective whistle-blower policy and team to handle the complaints which covers all stakeholders, including employees, customers, vendors and suppliers

HOW TO SCORE

For a whistle-blower policy to be considered effective, the assessor must check if the policy provides details on:




- Range and nature of issues covered under the policy
- Procedure to report any incident, including all available reporting channels
- Steps to be taken for resolving reported issues
- Expected investigation timeline
- Measures adopted to protect the anonymity of whistle-blowers

For the whistle-blower mechanism to be considered effective, it must cover all stakeholders (including customers, vendors and suppliers). A company will score maximum points on this question only if most of the above details are available.

GUIDING PRINCIPLE

Stakeholders of the company must be able to report issues without any threat of retaliation. A robust whistle-blower mechanism promotes a transparent reporting structure and encourages clear communication.

QUESTION DETAILS

	Category	Role of stakeholders
	Weight	1.11%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Code of Conduct

LEADERSHIP EXAMPLE

Mahindra & Mahindra has disclosed a [whistle-blower policy](#) highlighting all relevant details. Further, the policy covers all stakeholders of the company.

Q29. Does the company have a policy for determining and disclosing material information?

SCORING KEY

Score: 0

There is no policy or the policy is not publicly disclosed

Score: 1

There is a policy for determining and disclosing material information, but there have been cases in the past three years where the disclosures have not been timely or have been inadequate

Score: 2

There is a policy for determining and disclosing material information and the company has made timely and adequate disclosures in the past three years

HOW TO SCORE

The assessors need to check if the company has clearly articulated a policy defining parameters which determine a material event or information.

To score maximum points on this question, the following items need to be disclosed in the materiality policy:

- criteria for determination of materiality of events/ information
- events that shall be deemed to be material automatically
- timeline to disclose material information




In addition, there must be no evidence of the company having made no/delayed disclosures on material events in the past three years.

GUIDING PRINCIPLE

Information on material events which has a direct/potential impact on the company is important for stakeholders to make an informed decision while exercising their rights or making an investment or voting decision.

Companies must therefore disclose a framework which will be used for determining and disclosing material information in a timely manner.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Stock Exchange Filings

LEADERSHIP EXAMPLE

On its website, ITC has put out a detailed [policy](#), explaining the events which will be considered material and the timeline for disclosing such events.

Q30. Have there been any concerns on the financial statements in the past three years?

SCORING KEY

Score: 0

Auditor has issued a qualified opinion or the financial statements have been restated or the auditor has resigned due to differences in accounting opinion

Score: 1

Auditor has raised an emphasis of matter

Score: 2

Auditor has issued an unqualified opinion without any matter of emphasis

HOW TO SCORE

To score maximum points on this question, the independent auditors' report must have an unqualified opinion on the financial statements and there should be no emphasis of matter.




Management response to the qualifications and matter of emphasis, if any, must be considered before scoring on this section. The assessors may take a subjective call, depending on the severity of the issue and the adequacy of the clarifications provided by the company.

This is applicable to both standalone and consolidated financial statements.

GUIDING PRINCIPLE

The independent auditors must certify that the companies' financial statements are accurate, detailed and in conformity with the reporting norms.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report

LEADERSHIP EXAMPLE

Given the nature of the question, a leadership example will not be applicable here.

Q31. Is the company transparent in disclosing financial performance on a quarterly basis in the past one year?

SCORING KEY

Score: 0

The company has not disclosed financial performance for all the past four quarters

Score: 1

The company has not disclosed either standalone or consolidated financial performance in any one of the past four quarters

Score: 2

The company has disclosed both standalone and consolidated quarterly financial performance for each of the past four quarters

HOW TO SCORE




To score maximum points on this question, the company must have disclosed standalone and consolidated financial performance for each of the past four quarters. The immediately preceding four complete quarters will be taken into consideration while scoring on this question.

For a company that has no reportable subsidiaries, the assessor must check if financial performance has been reported for the past four quarters.

GUIDING PRINCIPLE

The companies must be transparent in disclosing their financials, both at a standalone and consolidated level, for each of the past four quarters.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Company website
- Stock exchange filings

LEADERSHIP EXAMPLE

Bharti Airtel has disclosed both standalone and consolidated financial results consistently for each quarter.

Q32. Is the company transparent in disclosing segmental information?

SCORING KEY

Score: 0

The company has not disclosed financial information on some business segments

Score: 1

The company has disclosed financial information on all business segments, but other segment related information is not comprehensive

Score: 2

The company has disclosed comprehensive information on all business segments

HOW TO SCORE

The assessor must check the company's annual reports and quarterly financial filings for information on the company's segments. The assessors may need to use their judgement to decide if all relevant segments have been covered.

Financial information on segments include segment revenues and profits.

Other segmental Information will be considered comprehensive if at least two of the below points are covered in the company's segmental reporting:

- Demand drivers for each segment
- Risks factors for each segment
- Business strategies for each segment
- Key initiatives taken by the company
- Capacity utilization for each segment




The company may operate in a single business segment, but multiple geographical segments, in which case, the above information must be covered for the geographical segments.

If the company does not have any reportable segments, and sufficient detail is available for that single segment, a maximum score may be given.

GUIDING PRINCIPLE

Meaningful information on business segments helps stakeholders understand the individual segments driving business performance. Further, each segment may experience a set of risks and opportunities – meaningful segmental information helps stakeholders understand these segment specific risks in detail.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Stock exchange filings

LEADERSHIP EXAMPLE

In its FY16 annual report, Larsen and Toubro has disclosed [detailed segmental information](#), including an overview, a description of the business environment, significant initiatives, major orders secured and future outlook for each segment.

Q33. Is the company transparent in disclosing non-financial information?

SCORING KEY

Score: 0

The company has not disclosed meaningful information on non-financial parameters

Score: 1

The company has provided information on some non-financial parameters, however all have not been disclosed

Score: 2

The company has disclosed meaningful information on all non-financial parameters

HOW TO SCORE

The assessor must check the company's annual reports and for information on non-financial disclosures.

Information will be considered meaningful if the below points are covered as part of the company's non-financial disclosures:




- Industry growth and performance
- Environmental issues
- Business model: key strengths and weaknesses
- Business strategy
- Capacity and capacity utilization

To score maximum points on this question, all the above non-financial parameters must be disclosed in sufficient detail by the company.

GUIDING PRINCIPLE

In addition to financial information, companies must disclose policies and performance regarding the overall industry, environmental issues, business strategy, ethical issues etc. Such information helps stakeholders evaluate the relationship between the company and the communities within which it operates.

QUESTION DETAILS

	Category	Disclosures & transparency
	Weight	1.30%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website

LEADERSHIP EXAMPLE

Tata Steel, as part of its [FY16 annual report](#), assesses all forms of capital used by the company and the key risks impacting each of these 'capitals'. The report is prepared according to the International Integrated Reporting Council framework (IIRC) framework.

Q34. Does the company provide comprehensive disclosures on its foreseeable risks?

SCORING KEY

Score: 0

The company does not have a risk management framework or it is not disclosed

Score: 1

There is a disclosed risk management framework which outlines the risks but no mitigation measures are provided or they are generic

Score: 2

Both risks and mitigation measures have been clearly outlined

HOW TO SCORE




The assessor must check relevant company documents to identify if the company has developed and disclosed an effective risk management framework.

To be considered detailed and score maximum points, the risk management framework must disclose both the foreseeable risks that the company is likely to experience in the course of its business as well as mitigating factors that have been implemented to manage the risks.

GUIDING PRINCIPLE

Stakeholders need information on material risks that the company faces as part of its business operations. Understanding these risks and the mitigation measures that the company implements will help them make informed decisions about company management and business strategy.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Sustainability report
- Company website

LEADERSHIP EXAMPLE

Bharti Airtel, in its FY16 annual report, has [detailed out key risks](#) that may impact the company under ten categories and has also listed out the mitigation measures for each of these key risks.

Q35. Has the company developed and disclosed a comprehensive related party transaction (RPT) policy?

SCORING KEY

Score: 0

The company does not have an RPT policy or has not disclosed it

Score: 1

The company has an RPT policy as required under regulations but it is not comprehensive

Score: 2

The company has a comprehensive RPT policy

HOW TO SCORE

A related party transaction policy is required to be disclosed under the Companies Act, 2013 and SEBI LODR regulations.




To score maximum points on this question, the related party transaction policy must be publicly disclosed by the company. Further, the policy must be comprehensive, mandatorily including the following points:

- Definition on ordinary course of business
- Definition on materiality of transactions
- Requirement of the external auditors to review material RPTs

GUIDING PRINCIPLE

There are inherent conflicts of interest involved in related party transactions. These conflicts of interest need to be adequately managed, with comprehensive policies, and accurate monitoring and disclosure.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Company website
- Corporate governance report

LEADERSHIP EXAMPLE

Tata Steel has articulated the meaning of 'arm's length' and 'ordinary course of business' in its [related party transaction policy](#).

Q36. Did the company provide timely, accessible and comprehensive information for all shareholder meetings in the past one year?

SCORING KEY

Score: 0

Information was neither timely nor accessible for some meetings

Score: 1

Information was timely and accessible for all meetings but not sufficiently comprehensive

Score: 2

Information was timely, comprehensive and accessible for all meetings

HOW TO SCORE

The assessor must check details for all shareholder meetings held over the last one year.

To score maximum points on this question, the information for shareholder meeting must be:




- Timely: the notice is made public at least 21 days prior to the meeting date (30 days for postal ballot)
- Accessible: the company has put up the notice (and other relevant documents) on the stock exchanges (with a time stamp) and on the company website
- Comprehensive: Sufficient information was available for shareholders to make an informed decision

The assessor must judge comprehensiveness on a case by case basis by checking if the resolutions presented over the past one year were transparent and had adequate details for shareholders to exercise their judgement.

GUIDING PRINCIPLE

The company should ensure that stakeholders receive regular, reliable and comparable information in sufficient detail for them to assess and take informed decisions on shareholder resolutions.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Shareholder meeting notice on company website
- Stock exchange filings

LEADERSHIP EXAMPLE

Mahindra and Mahindra Limited disclosed its [AGM notice](#) on the stock exchange and its website well in advance of the required timelines. Further, the information in the notice was comprehensive and detailed.

Q37. Are the detailed minutes or transcripts of the previous AGM publicly available?

SCORING KEY

Score: 0

The company has not disclosed meeting minutes within 7 days of the meeting or they are not detailed

Score: 1

The company has disclosed the meeting minutes and they are reasonably detailed

Score: 2

The entire transcript or webcast of the meeting is publicly available

HOW TO SCORE

Minutes will be considered reasonably detailed if they include the following:

- Attendance record of each director and the external auditors
- Issues discussed by shareholders




The company will only score maximum points in this section if it has provided the entire meeting transcript or if the link to the meeting webcast is available on the company website.

GUIDING PRINCIPLE

Meeting minutes/transcripts help in understanding the deliberations and decisions taken at shareholder meetings.

Minutes also record meeting decisions, and act as a review document while measuring progress on decisions taken.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Company website
- Stock Exchange Filings

LEADERSHIP EXAMPLE

Infosys has disclosed a [detailed transcript](#) and [webcast](#) of its 2016 AGM covering all the necessary requirements including the Chairperson's speech, attendance of directors and issues discussed by shareholders.

Q38. Did the company disclose voting results for each shareholder category for all resolutions proposed in the past one year?

SCORING KEY

Score: 0

Voting details of each shareholder category were not disclosed (within 48 hours) for some or all resolutions

Score: 1

Voting details of each shareholder category were disclosed for all resolutions, but the reasons for rejection of invalid votes were not disclosed

Score: 2

Voting details of each shareholder category were disclosed, along with the reasons for rejection of invalid votes

HOW TO SCORE

To score maximum points, the company must disclose the voting details of each shareholder category, as well as the reasons for rejection of invalid votes.

Shareholder voting categories include 'promoters', 'institutional shareholders', and 'other shareholders'.




The criteria on invalid votes will not be applicable for companies where the scrutinizer's report specifically mentions that there were no invalid votes for the resolutions.

The voting details must be presented in the report of an independent scrutineer.

GUIDING PRINCIPLE

The procedure for shareholders' meetings must ensure that votes are properly counted and recorded, and that the company makes timely announcement of the outcome.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Voting Outcomes
- Scrutinizers' Report
- Stock Exchange Filings

LEADERSHIP EXAMPLE

Equitas Holdings Limited has disclosed its [AGM voting outcome](#) on the stock exchange, which includes reasons for considering votes as invalid.

Q39. Is the company transparent in disclosing its shareholding pattern?

SCORING KEY

Score: 0

The shareholding pattern is not disclosed on a quarterly basis or the latest annual report does not list out the top 10 shareholders

Score: 1

Either the quarterly shareholding pattern filings have not been made or the latest annual report does not list out the top 10 shareholders

Score: 2

The quarterly shareholding pattern filings have been made and the latest annual report lists out the top 10 shareholders

HOW TO SCORE

The assessors need to go check if the quarterly filings contain information on:

- Promoter shareholding
- Institutional shareholding (FII and DII)
- Other public shareholding
- Names of entities which hold more than 1% stake




A one year (four quarters) lookback is to be considered for this question.

A company will score maximum points on this question if it has disclosed the quarterly shareholding pattern and names of its top ten shareholders in its latest annual report.

GUIDING PRINCIPLE

The disclosure of shareholding pattern allows stakeholders to understand the company's ownership structure, and any changes in it.

QUESTION DETAILS

	Category	Disclosures & transparency
	Weight	1.30%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Stock Exchange Filings

LEADERSHIP EXAMPLE

Wipro Limited has disclosed its shareholding pattern for each of the last four quarters on the stock exchange website.

Q40. Is the shareholding of individual board members and key managerial personnel (KMP) disclosed in the latest annual report?

SCORING KEY

Score: 0

The shareholding has not been disclosed for the board members, nor for KMPs

Score: 1

Shareholding for either board members or KMPs has been disclosed




Score: 2

Shareholding for board members as well as KMPs has been disclosed fully

GUIDING PRINCIPLE

The degree of influence and control of board members and KMPs over the company can be gauged through their shareholding.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report

LEADERSHIP EXAMPLE

Kotak Mahindra Bank Limited has disclosed the [shareholding of all its directors as well as key managerial personnel](#) in its FY16 annual report.

HOW TO SCORE

A company will score maximum points on this section if it has disclosed shareholding details for its board members and KMP (both the number of shares and the percentage of holding) in its latest annual report.

Q41. Has the company articulated a dividend policy for its shareholders?

SCORING KEY

Score: 0

Dividend policy is not publicly available or does not specify a target payout ratio

Score: 1

The policy is publicly available and specifies a target payout ratio, but the policy is not approved by shareholders

Score: 2

The policy is publicly available, specifies a target payout ratio and is approved by shareholders

HOW TO SCORE

The assessors need to scan the company website and annual reports to determine the existence of a dividend policy.

To score maximum points on this question, companies need to specify a target payout/retention ratio (or any other meaningful metric). In addition, the policy must have been approved by shareholders.




If there are any deviations from the policy, without any clear rationale, the assessors will need to scrutinize the matter closely before scoring.

GUIDING PRINCIPLE

Good governance practices demand that companies disclose a well-articulated dividend policy. This will help investors understand the company's strategies with the cash it generates, and help create expectation of behavior.

For the policy to be meaningful, it must specify a floor for dividend payout or a tangible method to determine dividend payout.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website

LEADERSHIP EXAMPLE

Mahindra and Mahindra has a comprehensive [dividend distribution policy](#) disclosed on its website. The policy specifies that the company will maintain a target dividend payout ratio of between 20% to 35% of standalone profit after tax.

Q42. Is the information on the company website comprehensive and accessible?

SCORING KEY

Score: 0

The information is not accessible or is inaccurate

Score: 1

Information is accessible and accurate, but is not comprehensive

Score: 2

Information is accessible, accurate, and comprehensive

HOW TO SCORE

To test for comprehensiveness of information, the assessors need to check if the company website contains all the disclosures as required under the prescribed regulations (Annexure A).




The links provided must be working and all documents listed must be available. In addition, they must be accurate and up-to-date.

GUIDING PRINCIPLE

The company's website is often the primary conduit of information dissemination to external stakeholders.

Companies must therefore ensure that the communication through its website is clear, accessible and up-to-date.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Company website

LEADERSHIP EXAMPLE

Mahindra and Mahindra's [website](#) is well-structured and allows stakeholders to search for documents and regulatory filings by financial year and by category.

Q43. Does the company have a dedicated investor relations team/person whose contact details are publicly available?

SCORING KEY

Score: 0

No details provided on any nominated team/person

Score: 1

The names of the individuals are disclosed, but no specific email or phone number are available

Score: 2

The names of the individuals are disclosed and their contact details available on the website

HOW TO SCORE




To score maximum points on this question, the company must provide both an email address and a phone number of the designated person/team on its website.

Generic board-line numbers will not be considered.

GUIDING PRINCIPLE

Companies must be accessible to its investors to ensure an effective dialogue and easy flow of information. For this, the company needs to provide the contact details of a dedicated team/person on its website.

QUESTION DETAILS

	Category	Disclosures & transparency
	Weight	1.30%
	Type	Applicable to all

VERIFICATION SOURCE

- Company website
- Stock exchange filings

LEADERSHIP EXAMPLE

Hero Motocorp Limited has a separate [investor contacts](#) page on its website, which lists out the specific individuals to be contacted for each type of query.

Q44. Does the company provide any information about the independence, competence and experience of the external auditor?

SCORING KEY

Score: 0

The company has not disclosed any details on the independence, competence or experience of the auditors and such information is not publicly available

Score: 1

The company has not disclosed any details on the independence, competence or experience of the auditors, but such details are publicly available on the auditors' website

Score: 2

The company has disclosed the details on the competence and experience of the auditor and has also provided an evaluation criteria for determining auditor independence or discussion on how auditor independence is determined

HOW TO SCORE

The company must provide a statement on its auditor selection process. Details on the process must cover the evaluation criteria for determining auditor independence.




In addition, the company must provide information about the competence and experience of the auditor. If this information is not provided by the company, the assessors need to check the auditors' website and determine if it provides meaningful information.

To score maximum points on this question, the company must proactively disclose all the relevant details.

GUIDING PRINCIPLE

Details on the independence, objectivity and expertise of the audit firm/partner helps stakeholders determine the quality of the audit process.

QUESTION DETAILS

	Category	Disclosures & transparency
	Weight	1.30%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Auditor website

LEADERSHIP EXAMPLE

Marks and Spencer Group Plc has documented [Auditor Engagement Policy](#) on its website. This policy states that the audit committee reviews the independence of the external auditor as well as conducts rigorous checks when the external auditor is engaged for consultancy work.

Q45. Has the company periodically rotated its auditors (firm and partner)?

SCORING KEY

Score: 0

Audit firm tenure > 10 years

Score: 1

Audit firm tenure < 10 years but audit partner > 5 years

Score: 2

Audit firm tenure < 10 years and audit partner < 5 years

HOW TO SCORE

For this question, the assessor need to calculate the tenure of the audit network, which means that the aggregate tenure of audit firms within a network will considered as the total tenure of the auditor.

For example, if audit firm A and audit firm B are both part of the same network and they have a tenure of 5 years and 7 years respectively, the total tenure will be computed as 12 years.




When there are multiple auditors, the assessors need to consider the tenure of the auditor with the longest association.

In companies, which are spin-offs from a larger company, the assessor needs to take a subjective call on whether the tenure will include when the company was being audited as a division of a larger company (prior to the spin-off into a separate company).

GUIDING PRINCIPLE

To maintain audit integrity and independence, companies must periodically rotate its audit firm and partners. This will enhance the integrity of the audit process and help in improving investor perception about the accuracy and quality of financial reporting.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website

LEADERSHIP EXAMPLE

Hindustan Unilever Ltd, in its [corporate governance report](#), has listed out an auditor rotation policy. The policy states that the company will rotate the audit partner responsible for the audit every five years and that the audit firm will be rotated every ten years.

Q46. Does the latest annual report contain a statement confirming the company's compliance with the regulatory requirements on corporate governance?

SCORING KEY

Score: 0

There is no statement regarding compliance with regulatory requirements on corporate governance

Score: 1

There is a statement, but no reasons (or generic reasons) have been provided for non-compliance (if any), neither have the steps taken for compliance in the future been outlined

Score: 2

There is a statement and the detailed reasons have been provided for non-compliance (if any), along with the steps taken for compliance in future periods

HOW TO SCORE

To score maximum points on this question, the company must provide reasons for the non-compliance (if any) along with the steps it is taking to comply.




The company will also score maximum points if it has stated that it has complied with all regulatory requirements.

Despite the company's statement, if there is evidence to believe that the company may not have complied with all the laws/regulations, the assessors will need to take that into consideration before scoring.

GUIDING PRINCIPLE

Compliance with all regulatory requirements on corporate governance fosters greater trust and credibility among external stakeholders.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report

LEADERSHIP EXAMPLE

HDFC Limited carries a [statement](#) in its FY16 annual report with regards to compliance with Corporate Governance norms. Further, HDFC has explained in detail the reasons of non-compliance with respect to Corporate Social Responsibility spending and how it can be compliant in future periods.

Q47. Has the company identified its senior executives and their responsibilities?

SCORING KEY

Score: 0

The senior executives have not been identified

Score: 1

The senior executives have been identified, but their roles have not been clearly stated

Score: 2

The senior executives have been identified and their roles have been clearly stated

HOW TO SCORE

The assessors need to check if the details have been provided for the following executives:




- Chief Financial Officer
- Chief Operating Officer
- All other C-level executives
- Business heads

To score maximum points on this question, the roles and responsibilities of such individuals must be clearly outlined in the annual report/company website.

GUIDING PRINCIPLE

Clear demarcation of responsibilities among the senior leadership increases accountability. Companies must therefore provide stakeholders details on its senior leadership team (those who report directly to the CEO/board).

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website

LEADERSHIP EXAMPLE

Infosys has disclosed detailed profiles of each of its [senior officials](#) on its website, including details on their areas of responsibilities and expertise.

Q48. Has the company disclosed the experience of each board member and senior executives?

SCORING KEY

Score: 0

Neither for board members, nor for senior executives

Score: 1

Only for board members, but not for senior executives

Score: 2

For both board members and senior executives

HOW TO SCORE

The experience details must cover the following:




- The areas in which the individual has relevant domain knowledge and expertise
- The number of years of working experience

A company will score maximum points on this question if such details are shared both for its board members and its senior executives (which include those referred to in Q47).

GUIDING PRINCIPLE

For stakeholders to understand the depth of the leadership, a clear articulation of the skills and experience of the board and the management is required.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website

LEADERSHIP EXAMPLE

Axis Bank Limited has listed out the names, areas of expertise and experience for each of its board members and key managerial personnel on its [website](#).

Q49. Has the company clearly identified its independent directors in the annual report and on its website?

SCORING KEY

Score: 0

No, the company has not made any distinction of independent directors in the annual report

Score: 2

Yes, independent directors are clearly identified and disclosed in the annual report

HOW TO SCORE




The assessors need to check if the latest annual report lists out the entire board composition, along with the names of each independent director.

In addition, the company website must be updated to reflect the names of the current set of independent directors.

GUIDING PRINCIPLE

Independent directors play an important role in ensuring that corporate actions protect the interests of all stakeholders. They must therefore clearly be identified for the benefit of the stakeholders.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website

LEADERSHIP EXAMPLE

All of HDFC Bank's Independent directors have been identified clearly in its FY16 annual report. Further, the [website](#) is also updated with the current list of Independent directors on the board.

Q50. Does the company fully disclose the process and criteria used for appointing new directors?

SCORING KEY

Score: 0

Neither the process nor the criteria are disclosed

Score: 1

Either the process or criteria are disclosed

Score: 2

Both the process and criteria are disclosed

HOW TO SCORE




A company will score maximum points on this section if it has provided details on:

- how candidates are identified (whether the name was proposed by the promoter, board or any other shareholder)
- The criteria based on which the candidature of directors are evaluated

GUIDING PRINCIPLE

Disclosing the process and criteria used by the board for appointing new directors brings in greater transparency in the director selection and brings about greater objectivity in the appointment process.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Board Evaluation Policy
- Nomination and Remuneration Committee Charter

LEADERSHIP EXAMPLE

Tata Steel has a detailed [policy on appointment and removal of directors](#) covering the process and criteria followed while appointing and removing directors. The policy also defines the criteria for ascertaining director independence.

Q51. Does the company disclose details on its training, development and orientation programs for directors?

SCORING KEY

Score: 0

No, there is no disclosure in the public domain

Score: 1

A detailed framework is not disclosed or there is no information on the training programs conducted in the previous year

Score: 2

A detailed framework is disclosed, along with details on the training programs for the year

HOW TO SCORE




Disclosures are considered detailed if there is information on:

- who is required to undergo the program
- core modules covered under the program
- who conducts the program

GUIDING PRINCIPLE

Orientation programs help directors understand the intricacies of the business. Ongoing training modules ensure appropriate levels of professional competence.

QUESTION DETAILS

 Category	Disclosures & transparency
 Weight	1.30%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Director Familiarization Policy

LEADERSHIP EXAMPLE

Infosys, in its FY16 annual report, discloses [details on trainings](#) imparted to directors, along with granular details on hours of training undertaken by each director.

Q52. Are all directors fully engaged in company matters and committed to corporate governance?

SCORING KEY

Score: 0

There are some directors with less than 75% average attendance in board meetings in the past three years

Score: 1

All directors have at least 75% average attendance in board meetings in the past three years

Score: 2

All directors have 100% attendance in board meetings in the past three years and there is evidence of commitment to corporate governance in company documents and director statements

HOW TO SCORE

For each director, the average attendance needs to be computed based on the data available in the previous three annual reports. Attendance through video-conferencing/telecon is taken into consideration. Attendance of directors who have been on the board for less than three years will be excluded for this question.

For example, if the assessment is being conducted in FY17, the average attendance for each director will be computed as follows:

$$A_{3YR} = \frac{\text{No. of meetings attended in FY14+FY15+FY16}}{\text{Total no. of meetings held in FY14+FY15+FY16}}$$




A company will score maximum points only if, for all directors, $A_{3YR} = 1$. In addition, assessors must also look for statements made by the company (and its directors) about its governance practices to ascertain their commitment to corporate governance.

GUIDING PRINCIPLE

It is the board's responsibility to establish good corporate governance standards. The board provides guidance, strategic direction, and oversight to the company's management and operations.

To perform their duties with sufficient care and diligence, board members are expected to be engaged with the company. Their attendance at board meetings is being used a measure of engagement.

QUESTION DETAILS

 Category	Responsibilities of the board
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report

LEADERSHIP EXAMPLE

In its [corporate governance report](#), Lenovo has clearly stated the amount of time spent by the board on corporate governance matters.

Further, it also highlights that each director has attended all board meetings during the year.

Q53. Does the board meet sufficiently to exercise proper oversight?

SCORING KEY

Score: 0

The board met less than four times in the past year

Score: 1

The board met four times in the past year

Score: 2

The board met more than four times in the past year

HOW TO SCORE



The number of board meetings need to be verified from the latest annual report.

The company will score maximum points if the board has met more than four times in the previous year.

GUIDING PRINCIPLE

The corporate governance agenda of the company must be driven by the board. The frequency of board meetings is being used to assess the overall engagement level of the board.

QUESTION DETAILS

 Category	Responsibilities of the board
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report

LEADERSHIP EXAMPLE

Marks & Spencer, held a total of eight board meetings in the previous year. Further, board discussion points have been clearly detailed in its [Governance Report](#). Action items arising out of the discussions and progress towards the objectives have been listed and measured.

Q54. Is there separation of roles between the Chairperson and the CEO?

SCORING KEY

Score: 0

The roles are not separated or the Chairperson is an executive director

Score: 1

The roles are separated, but the Chairperson is a non-executive non-independent director

Score: 2

The roles are separated and the Chairperson is independent

HOW TO SCORE

The most recent board membership needs to be checked by the assessors while scoring on this section. The review will consider any new appointments and resignations in the Chairperson/CEO role after the last annual report.




For this question, the assessor will test for independence of the Chairperson. Merely the company's classification of the Chairperson being an independent director is not sufficient. Vintage directors – those with a tenure of over 10 years – are not considered independent for the purpose of this evaluation.

Therefore, a Chairperson with a tenure of more than 10 years on the board will not be considered independent and the scoring will be adjusted accordingly.

GUIDING PRINCIPLE

The ability of the board to maintain an objective oversight on the company's actions is critical to the success of any corporate governance structure. Therefore, separating the role of and the CEO is important. Having an independent director as Chairperson supports greater objectivity in the CEO oversight process.

QUESTION DETAILS

 Category	Responsibilities of the board
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Stock exchange filings

LEADERSHIP EXAMPLE

Aviva Plc has separated the roles of the Group CEO and the Chairperson. Further, the [Governance report](#) clearly delineates the two roles by stating that the Chairperson's role is to lead the board and ensure its effectiveness while the Group CEO manages the day-to-day operations of the group.

Q55. Does the board have sufficient skills, competence and expertise?

SCORING KEY

Score: 0

There is a director with less than 10 years of aggregate working experience (refer exceptions) or there is no non-executive director with prior working experience in the major industry the company operates

Score: 1

At least one non-executive director has prior working experience in the major industry the company operates, but there is insufficient breadth of expertise

Score: 2

At least one non-executive director has prior working experience in the major industry the company operates and the board has sufficient breadth of skills

HOW TO SCORE

The assessor must check for the latest composition of the board. The review will consider any new appointments and resignations from the board after the last annual report.

To score maximum points on this question, the members of the board must have at least 10 years of working experience and collective knowledge on:

- Legal
- Financial
- Marketing
- General Management
- Supply chain/operational
- Specific Industry Dynamics

A board with at least three sets of identifiable skills will be considered to have sufficient breadth of expertise.




Exceptions for directors with less than 10 years of working experience: If a director is also part of the founding group of the company, the company will not be penalized as per option 1 of the scoring key.

GUIDING PRINCIPLE

A strong board requires members who possess the adequate experience, expertise and sound credentials.

A diverse skill set is also required to avoid groupthink and to arrive at balanced decisions. Companies must therefore institute boards with the right mix of backgrounds and competencies.

QUESTION DETAILS

	Category	Responsibilities of the board
	Weight	1.58%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Stock exchange filings
- Shareholder meeting notices

LEADERSHIP EXAMPLE

In its [2016 proxy statement](#), Microsoft Inc has identified the expertise and experience of each of its board members to demonstrate the core competencies and skill gaps on the board.

Q56. Does the board have gender diversity?

SCORING KEY

Score: 0

There is no gender diversity

Score: 1

Yes, there is gender diversity, but all women directors are part of the promoter family

Score: 2

Yes, there is gender diversity, and not all women directors are part of the promoter family

HOW TO SCORE

The assessor must check for the latest composition of the board. The review will consider any new appointments and resignations from the board after the last annual report.



To score maximum points on this question, the company needs to appoint professional women directors on the board who have not had affiliations with the promoter family.

GUIDING PRINCIPLE

Female representation brings in a different perspective, intuitiveness and a more collaborative style of leadership into corporate boardrooms.

However, for family run companies, the board must ensure that not all women directors belong to the promoter group as it may not reduce the risk of group-think.

QUESTION DETAILS

	Category	Responsibilities of the board
	Weight	1.58%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Stock exchange filings
- Shareholder meeting notices

LEADERSHIP EXAMPLE

Barclays Bank Plc's board had four women directors as on November 2016. The [2015 annual report](#) mentions a Board Diversity Policy which sets out a target of 33% female board representation by the end of 2020.

Q57. Does the company have adequate independent representation on the board?

SCORING KEY

Score: 0

Independent representation is below regulatory requirements

Score: 1

There is adequate independent representation as per regulatory requirements

Score: 2

There is better-than-adequate independent representation and for directors with a tenure of more than 10 years, there is a process to affirm the continuing independence of the directors

HOW TO SCORE

Independent representation is considered adequate if the board independence norms (as per Companies Act 2013 and SEBI LODR) are satisfied. Companies with an executive/promoter Chairperson must have at least 50% directors as independent and other boards must have at least 33% directors as independent.

Independent representation is better-than-adequate when:

- Independence norms are satisfied
- More than 50% of the board is independent (after classifying vintage directors, with a tenure of more than 10 years, as non-independent)
- There is a policy/ process to annually affirm the continuing independence of independent board members




The assessor must check for the latest board composition. The review will consider any new appointments and resignations from the board after the last annual report.

GUIDING PRINCIPLE

Independent directors are responsible for protecting the interests of minority shareholders.

A balanced board with adequate independent representation helps strengthen the internal control mechanism by reigning in the powers of the controlling shareholder and ensures that critical decisions are reviewed from an unbiased and objective perspective.

QUESTION DETAILS

	Category	Responsibilities of the board
	Weight	1.58%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Stock Exchange Filings

LEADERSHIP EXAMPLE

Bharti Airtel has a [policy](#) on Independent Directors, their roles, responsibilities and duties. It sets out the criteria of independence, age limits, recommended tenure, committee memberships, remuneration and other related terms of appointment.

Q58. Do the board committees have adequate independent representation?

SCORING KEY

Score: 0

Either size or independence norms for committees required under regulations are not met

Score: 1

Both the size and independence norms for committees required under regulations are met

Score: 2

Both the size and independence norms for all committees required under regulation are met and the audit committee and nomination and remuneration committee only comprise non-conflicted members

HOW TO SCORE

The size for board committees must be as per regulations and independence norms must be met (as per Companies Act 2013 and SEBI LODR).




To score maximum points on this question, the assessor needs to check if the requirements for all four committees required under regulation – audit, NRC, stakeholder relationship and corporate social responsibility, are met. Further, the audit committee and the NRC must have a balanced and non-conflicted mix of directors. This would mean:

- The audit committee must have more than three directors
- There is no executive director in the NRC
- No independent director in the audit committee and NRC has a tenure of more than 10 years on the board

GUIDING PRINCIPLE

Key board committees like the audit committee and the nomination and remuneration committee (NRC), which are responsible for reviewing financial statements, approving related party transactions and appointing board members, need to function with an independent oversight.

QUESTION DETAILS

 Category	Responsibilities of the board
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Stock Exchange Filings

LEADERSHIP EXAMPLE

Axis Bank has constituted board committees with adequate independent representation, in line with all regulatory requirements. Further, the Audit Committee and the NRC comprise entirely of independent directors.

Q59. Is the audit committee effective in its composition and its meeting frequency?

SCORING KEY

Score: 0

The audit committee met less than four times in the past year or none of the directors meet eligibility criteria for audit committee members

Score: 1

The audit committee met at least four times in the past year and at least one director has sufficient accounting/ financial expertise but an audit charter is not available

Score: 2

The audit committee has a clear charter that is publicly available, has met more than four times in the past year and all directors have sufficient accounting/ financial expertise

HOW TO SCORE

While reviewing the experience of audit committee members, the assessor needs to check if:

- Members have an educational background/relevant professional certification in finance or accounting; or
- Members have worked as CEO, CFO or as any other senior officer with financial oversight responsibilities

While the number of audit committee meetings will be listed out in the last annual report, the current composition of the audit committee must be considered while scoring on this question.

The audit committee charter may either be available as a separate document or it may be embedded in the annual report of the company. An effective audit charter must include:

- Roles and responsibilities of the audit committee
- Powers of the audit committee
- Composition of the audit committee

GUIDING PRINCIPLE

An audit committee has an important function of overseeing financial reporting and monitoring the effectiveness and integrity of the internal control systems. A clearly defined charter will help list out the roles and responsibilities of the audit committee for stakeholders and act as a guiding reference for the committee members.

Further, given the nature of responsibilities, the committee must comprise directors who have relevant expertise and devote sufficient time to carry out their duties diligently.

QUESTION DETAILS

 Category	Responsibilities of the board
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website

LEADERSHIP EXAMPLE

The Microsoft [audit committee charter](#), along with the roles and powers of the committee, also lists out an audit committee calendar with separate agenda items.

Q60. Does the company have a strong and robust internal audit framework?

SCORING KEY

Score: 0

No disclosures on internal audit framework

Score: 1

No disclosures on internal audit framework but the internal audit function reports to the audit committee

Score: 2

The internal audit function reports to the audit committee directly and there are detailed disclosures on internal audit charter

HOW TO SCORE

To score maximum points on this question, the company needs to establish a robust internal audit function. This would mean that:




- The internal audit team must report to the audit committee directly
- There must be an internal audit charter publicly available, which will include most of the following details:
 - Accountability and scope of work
 - Independent and objectivity of the team
 - Composition of the internal audit team
 - Training programs imparted of the internal audit team
 - Management support for internal audit function

The internal audit charter may either be available as a separate document or it may be embedded in the annual report of the company.

GUIDING PRINCIPLE

A strong and robust internal audit framework will improve the effectiveness of risk management, control and governance processes.

QUESTION DETAILS

	Category	Responsibilities of the board
	Weight	1.58%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Stock Exchange Filings

LEADERSHIP EXAMPLE

HSBC Plc has published a detailed [internal audit charter](#). Further, they have adopted the COSO 2013 framework for monitoring of risk management and internal control systems.

Q61. Were all resolutions proposed by the board to shareholders in the past one year accepted?

SCORING KEY

Score: 0

Some resolutions were defeated

Score: 1

No resolutions were defeated, but for some resolutions, majority of minority shareholders voted against


Score: 2

All resolutions in the last one year were accepted by majority of minority shareholders

GUIDING PRINCIPLE

Shareholder voting patterns are reflective of the nature and degree of engagement between the company and its investors.

QUESTION DETAILS

-  **Category** Responsibilities of the board
-  **Weight** 1.58%
-  **Type** Applicable to all

HOW TO SCORE

The assessor needs to check the stock exchange filings to find out how shareholders voted on all resolutions proposed by the board in the past one year.

A company will score maximum points if:

- All resolutions proposed in the past one year were passed; and
- In all such resolutions, more than 50% of minority shareholders voted FOR the resolution

VERIFICATION SOURCE

- Annual report
- Company website
- Stock Exchange Filings

LEADERSHIP EXAMPLE

Given the nature of the question, a leadership example will not be applicable here.

Q62. Is there evidence to show that the company, directors or its key managerial personnel (KMP) have violated normally expected ethical/ behavioral norms?

SCORING KEY

Score: 0

The company/directors/KMP have been penalized by any regulatory authority in the past three years

Score: 1

There have only been some procedural or administrative violations

Score: 2

No, neither the company nor its directors nor its KMPs have been fined or penalized by any regulatory authority in the past three years

HOW TO SCORE

The assessors need to go through annual reports, court rulings, regulatory orders, investigation reports to find evidence of transgressions. A web search may also be used for this purpose.

A three-year lookback period (from the date of assessment) is to be considered. Only those violations that are established/proved by a statutory or regulatory authority must be considered.

Based on the evidence available, the assessors then need to classify the violations (if any) into two buckets:


- Administrative/Procedural: These are technical violations, for which a standard penalty is prescribed in the regulatory framework
- Severe: These are more severe offences which may have a material impact on the company

The assessors may need to use their judgement for classifying the offences based on materiality, frequency, quantum, level of involvement and other similar metrics. The scores will accordingly be adjusted based on the scoring key.

GUIDING PRINCIPLE

Any evidence of violation of normally expected ethical norms by the company's directors or its KMP raises questions on the integrity of the board/management and may indicate lack of adequate internal controls.

QUESTION DETAILS

	Category	Responsibilities of the board
	Weight	1.58%
	Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Stock Exchange Filings
- Court and Regulator websites
- Relevant databases

LEADERSHIP EXAMPLE

Given the nature of the question, a leadership example will not be applicable here.

Q63. Does the remuneration structure for executive directors align pay with performance?

SCORING KEY

Score: 0

There is no information on variable pay

Score: 1

The executive directors are given variable pay through short term incentives

Score: 2

Variable pay is given through both short term and long term incentives

HOW TO SCORE

The assessors need to check the annual reports and the appointment terms of directors to determine the variable pay mix.

Short term incentives will include commission, performance bonus, and other similar instruments. Long term incentives will include stock options, restricted stock units, stock appreciation rights, and other similar instruments.


If the appointment terms include a variable pay component, but if variable pay was not paid to a director in the last three years, it will be assumed that there is no variable pay incentive for the director.

The final scoring will depend on whether all executive directors have individual variable pay components. Promoter directors (who are not eligible for long-term incentives) will not be penalized for not having a long-term incentive component in their salary structure, because of legal restrictions in India.

GUIDING PRINCIPLE

To align pay and performance, the remuneration structure of executive directors must have a larger component of variable pay. The variable pay must comprise a balance of both short term and long term incentives.

QUESTION DETAILS

 Category	Responsibilities of the board
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Stock Exchange Filings
- Shareholder meeting notices

LEADERSHIP EXAMPLE

Unilever Plc has a good [mix of fixed pay and variable pay](#) for its executive directors.

Q64. Has executive director(s) pay been aligned to company performance in the last three years?

SCORING KEY

Score: 0

Three-year growth in aggregate pay is higher than growth in profits and growth in revenues

Score: 1

Either of the above two conditions are triggered

Score: 2

Three-year growth in aggregate pay is in line/ lower than growth in profits and growth in revenues

HOW TO SCORE

The assessors must calculate the growth in aggregate executive directors' pay, company's profits and revenues over a three-year period.

The data will be available in the latest annual report of the company. For example, if an assessment is being conducted anytime in FY17, the following formula is to be used for each of the metrics:

$$V_{\text{Rev/Pr/Rem}} = \frac{(\text{FY16 value} - \text{FY14 value}) * 100}{\text{FY14 value}}$$

A company will score maximum points only if:

$$V_{\text{Rem}} < V_{\text{Rev}} \text{ and } V_{\text{Rem}} < V_{\text{Pr}}$$




The aggregate remuneration will be considered only for directors who have been present on the board for each of the three years. If there are resignations and appointments during this period, such directors will be excluded from this analysis.

GUIDING PRINCIPLE

Remuneration of executive directors should be used to align their focus with the company's goals and performance. Excessive remuneration, especially in non-performing companies, are a major cause of concern for stakeholders.

To promote greater accountability and discipline, companies must ensure that the growth in remuneration for its executive director is in line with growth in profits and revenues.

QUESTION DETAILS

 Category	Responsibilities of the board
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report

LEADERSHIP EXAMPLE

In ITC, the [aggregate remuneration](#) for executive directors has grown at a slower pace than the growth in revenues and net profits.

Q65. If the company has a stock option scheme, is the exercise price of the stock options fixed at a discount to market price?

SCORING KEY

Score: 0

Only options granted to board members were discounted

Score: 1

Discount given on stock options to all employees

Score: 2

The stock options were issued at market price

GUIDING PRINCIPLE

Deep discounts on employee stock options essentially take the form of deferred compensation rather than incentives. Additionally, the cost of such discounted options will have to be borne by the company.

If the board believes it still needs to give options at a discounted price, such schemes need to be extended to all employees and must not be exclusively for board members.

HOW TO SCORE

Discounted stock options may be given in various forms:

- Where the exercise price of the option is the face value of the share
- Where the exercise price of the option is fixed at a specified discount to the market price of the share
- Through restricted stock units and other similar instruments

A company will score maximum points if all the options granted in the past one year had an exercise price which was equal to the market price on the date of grant.

This question is not applicable for companies which did not grant any stock options in the past one year.

QUESTION DETAILS

 Category	Responsibilities of the board
 Weight	1.58%
 Type	Only applicable for companies with stock option plans

VERIFICATION SOURCE

- Annual report

LEADERSHIP EXAMPLE

HDFC Bank has historically always [granted stock options at market price](#) to all its employees.

Q66. Is the CEO compensation commensurate with the company's size and performance?

SCORING KEY

Score: 0

Variable pay is less than 50% of overall pay or overall pay of the CEO is more than 5% of net profits

Score: 1

None of the two above conditions are triggered

Score: 2

Variable pay is more than 67% of overall pay and overall pay is less than 5% of net profits

HOW TO SCORE

Variable pay includes both short term and long term incentives.

The data will be available in the latest annual report of the company. For example, if an assessment is being conducted anytime in FY17, the following formulae are to be used:

$$R_1 = \frac{(\text{FY16 short-term pay} + \text{FY16 long-term pay}) * 100}{\text{FY16 total pay}}$$

$$R_2 = \frac{\text{FY16 total pay} * 100}{\text{FY16 profits}}$$

IF, $R_1 > 67\%$ and $R_2 < 5\%$, score 2

IF, $R_1 > 50\%$ and $R_2 < 5\%$, score 1

IF, $R_1 < 50\%$ or $R_2 > 5\%$, score 0




For loss-making companies, the assessor must consider multiple factors including comparison with peers, correlation of pay versus the performance of the company, among others.

GUIDING PRINCIPLE

In line with good governance practices, a major portion of the CEO salary must comprise variable pay. This will help align pay with performance.

Further, the salary must be commensurate with the overall size of the company and must not exceed 5% of profits.

QUESTION DETAILS

 Category	Responsibilities of the board
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report

LEADERSHIP EXAMPLE

In HDFC Bank, the [salary of the CEO](#) has a variable component of more than 67%.

Further, the overall pay is significantly lower than 5% of net profits.

Q67. Does the company have a succession plan for its directors and senior leadership?

SCORING KEY

Score: 0

There is no mention of succession planning in company documents

Score: 1

There is a succession plan either for directors or senior leadership

Score: 2

There is a succession plan for both directors and senior leadership

HOW TO SCORE

The assessor must check all relevant company documents to identify if the company has developed a succession plan for its directors and senior leadership.



The intent of the question is to identify if the board discusses succession planning in its meetings and if it has an internal plan to arrange a smooth transition. To score maximum points on this question, the assessor must determine if the company has disclosed the existence of a succession plan for both directors and senior management, even if granular details are not publicly disclosed.

GUIDING PRINCIPLE

A succession plan provides for a smooth transition and business continuity by mitigating risks in the event of a change in the leadership of the company.

Given the increasing complexities in running a business, companies and boards must devote sufficient time to develop a robust succession plan for the board and the CEO, and have a strong second tier of leadership.

QUESTION DETAILS

 Category	Responsibilities of the board
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Sustainability report

LEADERSHIP EXAMPLE

In its annual report, Starbucks highlights the [importance of succession planning](#) in the organization.

Q68. Are the disclosures on succession planning detailed?

SCORING KEY

Score: 0

There is no policy or the policy is not publicly disclosed

Score: 1

Only a broad framework for succession planning is disclosed

Score: 2

A detailed framework for succession planning is disclosed

HOW TO SCORE

The succession plan may be presented in the form of a separate document or embedded in other company documents.

The assessor needs to check if the succession plan includes details on the following:




- Applicability of the policy
- Development of a leadership pipeline
- Criteria to be used while appointing successors

A company will score maximum points on this question only if disclosures are made on all the three areas.

GUIDING PRINCIPLE

Sudden and unplanned gaps in leadership create uncertainty for stakeholders. Companies must therefore strive to provide sufficient disclosures on their succession plan for stakeholders to determine its adequacy and effectiveness.

QUESTION DETAILS

 Category	Responsibilities of the board
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website
- Sustainability report

LEADERSHIP EXAMPLE

BHP Billiton has published a [succession plan](#) for the directors, the Chairperson and the CEO.

Q69. Is the board evaluation policy and process in place and effective?

SCORING KEY

Score: 0

No evaluation system in place or inadequate disclosures about board evaluation

Score: 1

There is a board evaluation system in place but no impact assessment is provided

Score: 2

A robust system for evaluation is publicly disclosed and there is an impact assessment which leads to a board improvement plan

HOW TO SCORE

The assessor needs to check if the disclosures on board evaluation cover:

- who is evaluated (individual directors, entire board, committees)
- who evaluates (nomination committee, external consultant)
- how the evaluation is conducted (criteria)




A company will score maximum points on this question only if, in addition to the disclosures on all the three areas, there is an impact assessment conducted which lists out measures for board improvement.

GUIDING PRINCIPLE

Board evaluation is the first step towards establishing a measure of performance and setting accountability. It can be used to review the collective expertise of the directors and identify skill-gaps based on changes in strategy or business functions.

Boards which embrace robust evaluation mechanisms are likely to be more agile, responsive and drive towards continual self-improvement.

QUESTION DETAILS

 Category	Responsibilities of the board
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website

LEADERSHIP EXAMPLE

In its [latest annual report](#), HSBC Holdings Plc specifically highlights the key findings of its previous board review and highlights the action taken by the company to address some of these issues.

Q70. Are board committees evaluated separately?

SCORING KEY

Score: 0

There is no separate evaluation of board committees

Score: 1

There is evidence of a review but the criteria for evaluation of committees is not disclosed

Score: 2

There is evidence of a review and the criteria for evaluation of committees is disclosed

HOW TO SCORE




A company will score maximum points on this question if:

- It has carried out a separate evaluation for its board committees
- It has disclosed the criteria used for evaluating its committees

GUIDING PRINCIPLE

Evaluating the performance of the committees involves not just individual performance reviews, but an assessment of the performance of a group, which has several more dynamics to its functioning beyond individual competence. But, given the increased responsibilities of board committees, this is what must be encouraged as it helps set expectations and creates benchmarks.

QUESTION DETAILS

 Category	Responsibilities of the board
 Weight	1.58%
 Type	Applicable to all

VERIFICATION SOURCE

- Annual report
- Company website

LEADERSHIP EXAMPLE

Within its Board Evaluation mechanism, Unilever also has a [committee evaluation mechanism](#), where board committees evaluate themselves annually under the supervision of the respective Chairperson. The actions arising out of these evaluations are also listed in each committee's report.

8. CONCLUSION

The Scorecard aims to measure the current governance standards adopted by Indian companies against global best practices. In the overall balance, a relatively lower score does not mean that companies have poor governance ab initio – from the Indian context, they may well have acceptable levels of governance. If companies in India wish to grow and become global, or raise capital from the global markets, they must strive to measure themselves against the best.

While the Indian regulatory landscape is more progressive than other markets in some aspects, compliance is not the focus of this exercise. Independent of what regulatory requirements are, companies must behave in a manner that is fair to the interests of all stakeholders. Disclosure and transparency levels too must be seen from the lens of stakeholders, rather than from a need-to-know basis. Some of these changes are not a simple requirement of action, but require a deeper appreciation of the company's own responsibility towards its several stakeholders.

The relevance of the Scorecard is not limited to a scoring exercise. It is most meaningful when measured over time – because the changes in scores will determine how individual companies, and the market, have developed in terms of their governance standards.

Annexure A

List of disclosures required on the company website under the prescribed regulations

No.	Disclosure	Relevant regulation
1	Functional website	SEBI LODR
2	Details about its business	SEBI LODR
3	Appointment terms for Independent Directors	SEBI LODR/ Companies Act
4	Composition of Board Committees	SEBI LODR
5	Code of Conduct for Board and Senior Management	SEBI LODR
6	Details of Vigil mechanism/Whistle Blower policy	SEBI LODR/ Companies Act
7	Remuneration criteria for Non-executive directors (if not included in Annual Report)	SEBI LODR
8	Related Party Transaction Policy	SEBI LODR/ Companies Act
9	Policy for material subsidiaries	SEBI LODR
10	Contact details for Grievance redressal team/ designated officials	SEBI LODR
11	Details of agreements entered into with media companies	SEBI LODR
12	Schedule of analyst meet including investor presentations	SEBI LODR
13	Annual Report	SEBI LODR
14	Financial results approved in board meeting	SEBI LODR
15	Notice of Board meeting to consider financial results	SEBI LODR
16	Newspaper advertisements - Financial results, shareholder meetings	SEBI LODR
17	Policy to determine material information and details of the authorised Key Managerial Personnel	SEBI LODR
18	Intimations to stock exchanges	SEBI LODR
19	List of shareholders in case dividend remains unpaid	Companies Act
20	Corporate Social Responsibility (CSR) Policy	Companies Act
21	Accounts of subsidiaries	Companies Act
22	Documents relating to scheme of arrangement	Companies Act
23	Notices of shareholder meetings/ Postal Ballot	SEBI LODR
24	Voting results of general meetings along with Scrutinizers' Report	Companies Act
25	Closure of register of members and debenture holders	Companies Act
26	Details regarding resignation of directors	Companies Act
27	Dividend Policy	SEBI LODR

SEBI LODR: SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
Companies Act: Companies Act, 2013

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India is IFC's top country exposure, globally. IFC's committed portfolio in India is over \$5 billion as of June 30, 2016. In FY16, IFC committed \$1.1 billion in new investments. In addition to strengthening local capital markets in India, IFC is focused on boosting financing in infrastructure and logistics, promoting financial inclusion, helping create conditions to attract increased private capital, and helping structure public-private partnerships. For more information, visit www.ifc.org.

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