Ch - 1.

(1) Corporate Governance

(1) Framework of
(2) Broad Scope
(3) Encourages
(4) heart trans-, dis- etc.
(5) Concerned for Stakeholders → Broad Concept.

(2) Advantages of Corporate governance.

(1) Boosts Investor's Confidence
(2) positive Impact on share Price
(3) ensures Success & growth
(4) Brand formati.
(5) Best Interest of all
(6) Minimize risk, wastage etc

Ch → 8.

ICA. SRA.

ICA.

① Meaning! → As Per sec 2(h) of ICA, 1872, Contract is an agreement which is enforceable by law

② Agreement = Promise or set of Promise

③ Promise = when offer is accepted
or
" Proposal is accepted

④. Significance of Contract.

① Avoid Misunderstanding
→ It is made by Mutual consent of Parties.

② Record
↓
future reference.

③ Increases efficiency

✓ term & conditions communicated

✓ Smooth flow of business operation

(4) evidence in court
↓
It is created by legal intention.

(5) proof of Details
→ Mutual consent
→ agreed
→ used as proof
→ used in future

(6) Record of Commitment
Obligation, Duties & Rights of Parties.

(7) Security
↓
→ who is responsible
→ Duties
→ Rights & Responsibilities.

* Steps of Negotiation.

① Make a Plan
(Clearly sets out what you need to ask from your vendors)

↓

② Build a foundation for communication

↓

→ Should be clear, to the point, trustworthy

→ Respond in timely manner

↓

③ Proactive in communication

↓

④ Research Pricing

↓

→ you should do research work prior only

→ So that vendor cannot justify High Price for high quality.

5. Learn from them
   ↓
   Increases the respect

6. Sell the vendors.

7. Talk to Customers.

* Essentials of Valid Contract [Sec 10].

1. Two Parties :– Cannot be made with one Party

2. Competence of Parties
   1. Major
   2. Of sound Mind
   3. Not disqualified Otherwise by Law

Need :

1. enhanced Investor Trust
2. Access to Global MKt
3. easy finance from FI
4. Combat corruption
5. enhances valuation of Co.
6. Accountability.

Elements of Corporate G.

1. Role of Power of Board
   - elected by SH
   - Best Int.
   - clearly defined Roles & Res.
   - charter → mention

2. Board skill
   - opⁿ skill
   - finⁿ "
   - legal skill
   - Knowⁿ of govt → suffⁿ.

3. Appoin
   - clear proc
   - Statutory
   - By SH.

(4) Induction & Training
→ Roles, Resp.
→ Environment
→ Strategy.

(5) Monitor the Perform
→ System
→ combine as well as individual

(6) Independence:
→ Suffi no. of I.D.

(7) B Meetings
→ 4 Meeti'
→ discuss
→ decision.

(8) Audit commi
Link b/w Mgt & Auditor.

(9). Risk Mgt.
→ Treat, Analyse & Prevent the Risk

(10) Mgt.

Evolution of Corporate Governance Theory.

① **Agency Theory.**

→ Agents work on behalf of & in the best Int. of Principals.

→ Managers are the agents and owners are the Principals.

→ Managers act in the best Int and on behalf of owners.

② **Shareholder Theory**

→ Shareholder's money is Invested

→ Directors are elected by Shareholders.

⇒ SH are widely spread.

③ **Stakeholder theory**

→ Best Int for all not only SH.

→ Modern times! – Shareholders → Principal
Management → Agent.

4) Stewardship theory

→ Steward :- who manages another's Property.

→ $\boxed{\text{Manager, Directors, Mgt.}}$

✱ Governance from Indian Scriptures

1) Ramayana :-

- Governance has no inequality.
- Promotion of education for all.
- Promotion of good health for all.
- Duty & Commitment

2) Vidur - Niti → policy.
↓
Intelligence/skill

3). Shanti - Parva

Raja Dharma → King should be dutiful.

Apad Dharma → Conduct in case of Adversity.

Moksha Dharma → Release or Freedom.

Bhagavad - Gita

1. Transparency.
2. Uphold the dharma (No Conflict of Int).
3. Priority to Public Int and not Personal Int.

Arthashastra

By Kautilya (also known as Chanakya).

1. King is servant
2. Leaders should be responsive..
3. ethical Standard

(4) - effective admin.

* Roots of Corporate Governance in Indian Ethos

- Ramayan
- Gita
- Mahabharat
- Arthashastra

* Corporate Governance in USA.

- Journey
- SEC
- SOX
- Imp sec of SOX.

(1) Journey :—

1977 :- Foreign Corrupt Practices Act.

↓

Internal Control System

1979 :— SEC :— Reporting on IFC.

1985 :— Tradeway Commission :— Control

Environment
+
birth of COSO

1992 :- COSO :- helps business and chance their Internal Control System

2002 :- SOX :- Covers all aspect.
ex: Independence, Auditory, Board's responsibility etc.

2010 :- Consumer Protection Act :- Standards and policies for Consumer Protection.

2 SEC : Securities and Exchange Commission.

1. Concerned with Investor's Protection
2. Fair, efficient and orderly Security Market.
3. oversee the Activities of brokers, advisors etc.

③ SOX: Sarbenes Oxley Act

2002

Focuses on :-
→ Investor's Protection
→ Corporate disclosure
→ Fair Practices in Companies.

After scams of Enron, Tyco etc.

④ Imp Sections of SOX.

Sec 302
→ CFO & CEO must Review Financial Report.
→ CFO & CEO are responsible for Internal Accounting Control

Sec 401
FS should be accurate and presented in a manner that it does not include

Sec 404
All F.R must include Internal Control report that indicates that Mgt

→ CFO & CEO must report any incorrect Infoⁿ.

deficiency in IAC

is responsible for adequate ICs.

→ CFO & CEO must indicate material change in IAC.

Sec 409
↓
Companies should issue Information on real time Basis.

Sec 802
↓
Penalties for alteration in documents in Ongoing litigation, investigation or Bankcropcy Proceeding

Sec 806
whistle blower Protection.

Sec 902
↓
crime if corruptly alter, destroy or conceal any documents

Sec 906
↓
crime,
↓
Certifying misleading
↓
or fraudulent

Financial Report.

Important Corporate governance forums:-

→ India.

1) NFCG

→ 2003

→ By MCA

→ In Partnership with CII, ICSI & ICAI

→ 2010:- ICMAI + NSE] Trustee

→ 2013:- IICA] Trustee

2) IOD, UK

→ In 1903

→ **Objects:-**

a) Promote skills, Knowledge, Competence on the part of directors & officers.

b) Promote the Research, development of law and Practice of CG.

c) Promote the Int. of Investors and business community

Investors, brokers etc / or company to educate about CG.

* CG Principles and Recommendations, Australia - 2019.

↓

CGP & R = 2003.

↓

2nd edition = 2007

↓

3rd edition = 2014

↓

4th edition = 1/1/2020.

* "If not why not Approach".

8 Principles.

① foundation for Mgt & oversight

② Board to be effective :-

③ Culture of acting

→ Roles & Responsibilities of board

→ Appropriate size of Board

Lawfully ethically and responsibly

→ Regulary Review their Performance.

→ Skill, Knowledge, competence of entity.

(4) Remuneration
→ Fair Remⁿ of Board
→ Attract, Retain and Motivate the executive directors.

(5) Rights of security holders :- Information to them.

(6). Timely disclosure : — Balance of timely disclosure on real time basis.

+ Confidential! ——

7. Integrity of Corporate Report :- Process to verify the Integrity of corporate report.

8. Manage Risk :- Framework to Identify & mitigate risk.

H.W :

✗ Development of CC in UK.

Cadbury Report

→ By Sir adrian Cadbury

→ CEO & chairman Should seperate

→ Boards have Atleast 3 NED.

→ Board should have NED. Audit Commitee.

→ Incorporated in London Stock Exchange.

Greenbury Report

→ Sir Richard Greenbury.

→ Remuneration committee

- Remun Policy.
- Linked to Performance.

Turnbull Report.

→ Focuses on co's Internal Control system.
→ Internal Control guidance for directors.

④ Higgs Report

→ By Sir Higgs
→ Atleast 50% of Board = NED
→ Meeting once in a year
→ One Senior independent Director
→ NED should have skill, time, experience and knowledge.

* CG code, 2018 -

→ BEIS published in 2016 a green paper on CG.

→ FRC announced, accepted & published in 2018.

→ + relationships b/w CO, SH, Stakeholders etc, diversity, Strategy, board composition etc.

*. CG Strewardship Code, 2020

→ Responsible for allocation, management & oversight of Capital

→ focuses on Asset owners, Asset Managers & ST. Providers.

→ 12 principles for AM, + A O.
→ 6 " " Sr. Provider.

* UK CG code, 2018.

Principles.

Board.
→ Effective Board
→ Board make sure Co's value, strategy and purpose
→ Resources are in place
→ Board should do effective Mgt, Participation etc.
→ Consistency.

Composition.
→ Appointment of board should be formal, rigourous and transparent.
→ Board should have skill, knowledge.

Audit

- → Comittee
- → Audit procedure
- → Fair assessment of co'
- → Risk Mgt.

Remuneration

- → Should support sustainability.
- → " be aligned to co's values.
- → " " " " co's long term strategy.
- → Transparent & fair Remuneration

Ch → 1 ESG

Important Questions

Chapter - 1

[C.W = 3, 9, 10 + 15]

Q.1). Explain the meaning of Corporate Governance and its advantages.

Q.2). Why Concept of Corporate Governance is important?

Q.3). What are the elements of Corporate Governance? Any Six.

Q.4). How "Sox" played the very Imp Role in promoting Corporate Governance in U.S.A?

Q.5) What are 8 principles of Corporate Governance of Australia?

Q.6). Explain the structure and Role of

Q.7). Explain the Mission of "Conference Board" and its structure.

Q.8). What are the vision and Mission of IIRC?

Q.9). Explain section 404, 802 and 302 of Sox Act.

Q.10). Explain the Moral Values as described in Deontological theory.

Q.11). What is the difference b/w Agency and Stewardship theory?

Q.12). In the light of Appointment of Board, Audit Committee, Board meetings and Risk Management explain the Elements/Scope of Corporate Governance.

Q.13). What is the definition of Corporate Governance as per ICSI?

Q.14). What recommendations have been made by Uday Kotak Committee on Corporate Governance matter?

Q.15). What is Cadbury and Higgs Report?

9 mins:

Ch → 2.

Companies Act, 2013 related to Corporate Governance : —

1. Appointment & tenure of ID.
2. " " " " WD
3. Performance evaluation of ID, WD, Committee and Board as whole.
4. Appointment of KMP
5. Compliance of RPT & introduction of Arm's length Price.
6. Appointment of Auditors and rotation of Auditors.
7. Separation of chairperson & CEO.
8. Constitution of AC, NRC, CSR, NFRA, Committee.
10. Vigil Mechanism.

SEBI (LODR) Regulations, 2015

① Obligation of listed Entities.

1. Board Composition
2. Board Committee
3. Website Requirement
4. Advertisement
5. Board Meetings.

Regulation 4

[Disclosure]

1. Information — prepare & disclose as per Accounting & Finance disclosure.
2. Provide Adequate and timely Information to SE & Investors
3. Disseminations as per provision of Regulation
4. Equal timely and cost efficient access.

(5) Reports, statements, documents and information shall contain relevant information. → (6) So that investors can track status of entities.

Chapter - IV [SEBI (LODR)]

(1) Rights of SH

→ voting exercise
→ Participation in meeting
→ Exercise ownership
→ Being informed
→ Protection of Minority SH
→ Mechanism to address their grievances

(2) Equitable treatment

→ Treated equally
→ voting by foreign SH
→ [Participation in C.A decisions.

[Same points]

→ Framework

③ Transparency & Disclosure to avoid Insider trading

② Disseminate Info timely, efficiently etc.

Info shall be Prepared & disposed as per Acc & Fin disc..

not difficult or expensive to cast votes.

③ Minutes should be Prepared explicitly.

1. Prepared & disclosed
2. disseminate, timely
3. to SE & Investors
4. Cost efficient Access

[221].

Responsibilities of BOD

R - 4(2)(f) -

① Disclosure

BOD & Mgt shall take steps to meet the expectations of stakeholder.

BOD & KMP shall disclose to BOD, if they have any Int in transaction of co, whether directly or indirectly.

② - Functions

a. Review the corporate strategy, objective, risk plan, business plan or budgets.

b. select, monitor, compensate ; Replace KMP.

c. Ensure transpar-ent nomination Process to BOD. with diversity q---

d). ensure the Integrity of entities's Accounting & financial Reporting system

e). oversee the Process of disclose and communication.

③ other Responsibilities

① Set corporate culture and values.

② ensure Continuing directors training

③ Maintain high ethical standards.

④ Objective in Judgement

⑤ Assign sufficient no. of NED

6. Committed to their responsibilities.
7. Access to accurate, timely and relevant information.

* Role of Stakeholders in Corporate Governance

1. listed entity shall respect the rights of Stakeholders
2. Access to timely, accurate and reliable Info^n
3. Redressal Mechanism
4. effective whistle blowing mechanism → to freely communicate their concerns.

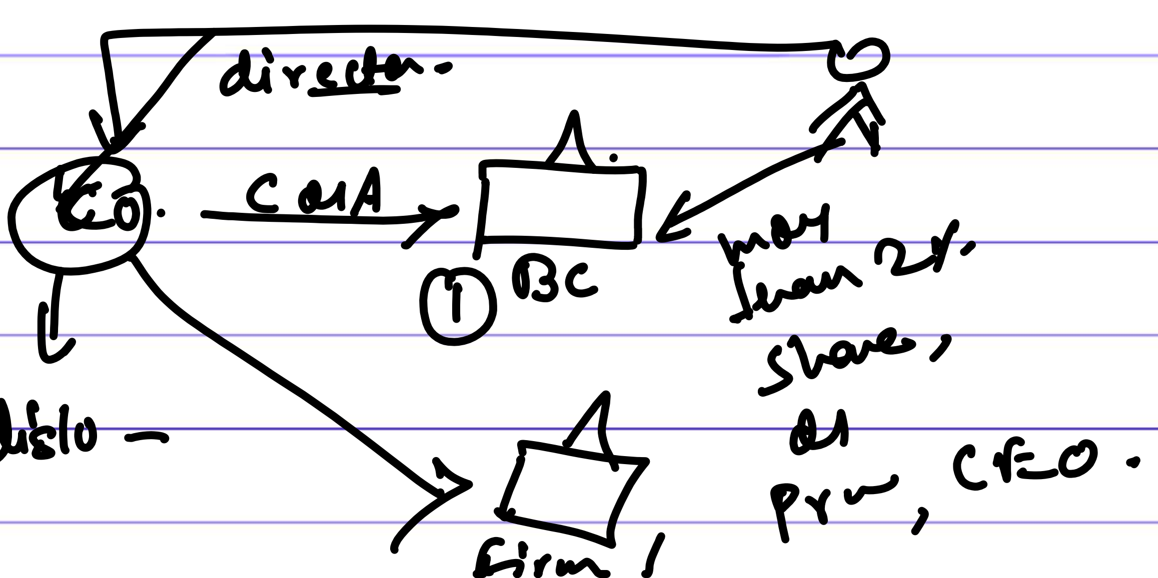
Adequate and timely.

* - Timely Information! [Consider]

① Date, time, location and agenda of AGM.

② Capital Structure → control Proportions.

③ Rights attached to class of SH.



Unlisted Entities

184(1) [3 cases]

→ every director shall at :- 1st BM in which he Participates as a DIR.
or
1st BM of every F.Y.
or
whenever there is any change in dis^n already made
Shall disclose his concern or Interest in co, Body corporate, firms or other association.

184(2).

every director who is directly or indirectly Int or concerned in a Con or proposed Con or entered into

with

Co. or b.c. → in which director or in ass^n with other DIR holds more than 2% sh or of Co.

firm or Entities → in which he is a Owner, Partner member or

is a promoter,
Manager or CEO.

Shall disclose his concern or Int
in a meeting in which such
Con A is discussed & shall not
attend the meeting.

*. If not Intrested at the time of Con A but becomes so afterwards, shall disclose at BM.

184(3): — If co. enters into Con A
w/o disclosure or participation of director
then Con A shall be voidable at the option of co.

184(4): — Director → fine of 1 lakh rupees.

disclosure — ✗
Participation — ✗

184(5): —

① not restrict from having Int or concern

② No dis required

If SH is not more than 2%.

Sec 189

1. Shall enter the Particulars of Int or con. of director as given in 184(2) & place the Regn at next BM.

2. Director or KMP within 30 days of appointment ↓ disclose the Int or concern as specified in 184(1).

3. Keep the Register at RO. + open for Inspection + during biz hrs.

4. 189(4) ↓ Place at the AGM and open and Accessible.

5. 189(5) ↓ Sec 189(1) shall not apply.

(1) Co. A for sale or purchase of RM, SY or goods & value does not exceed 5 lakh.

(2) By Bank's co. for collection of Bills.

189(6) :- Penalty of 25000 on Director.

★ Duties of Director (sec 166).

(1) Act as per AOA

(2) In good faith

(3) Not involve in any situation that gives conflict on your status

(4) Skill & care

(5) Does not Assign his office

(6) No personal gain or advantage.

Corporate governance in Banks/FI.

Committee.

- 2000: → Dr. Patil
- 2001: – Dr. AS Ganguly
- 2014: – Dr. P. J. Nayak.

→ Scheduled & Non scheduled.

→ Act.

- Pvt sector.
  - Co's Act 1956 + Co's Act 2013
- Majority banks.
  - Banking Regulation Act, 1949
- SBI Act
- Nationalised.
  - BCA, 1970 + BCA 1980
- Listed Banking Companies
  - SEBI (LODR) Regulations, 2015.

Do not open Book

NBFCs. (Corporate Governance)

2016 Directions.

- Non Deposit taking NBFC → RBI Act, 1934
- DT-NBFC → RBI Act
- Micro finance → RBI Act → ,, ; → 500 cr & above. → ,,
- IFC → ,,
- Factor → Factoring Regulating Act, 2011

Committees

(System Audit atleast once in 2 yrs).

Audit Committee

→ Not less than 3 members of BOD

→ Same Power, functions, duties as of AC u/s 177 of Co's Act 2013

→ Same as A/c u/s 177 of Act, 2013.

Nomination

to ensure Fit & Proper status of directors → Same as sec 178

Risk Mgt

To manage the integrat-ed Risk.

→ Beside Asset liability Mgt Committee.