

QUESTION BOOK

ESG

CHAPTER 1:

CONCEPTUAL FRAMEWORK OF CORPORATE GOVERNANCE

QUESTION 1:

What do you understand by corporate governance, enlist the advantages and need of corporate governance? How important is corporate governance for success of an organization? (DEC 2018) (5 MARKS)

Ans:

- (a) Corporate governance is application of best management practices, compliance with applicable laws in true letter and spirit and adherence with ethical standards for effective management and distribution of wealth and the discharge of social responsibility for sustainable development of all stakeholders.
- (b) Need and advantages of corporate governance includes the following:
 - (i) Good corporate governance promotes efficient management, which contributes to both corporate success and overall economic growth.
 - (ii) It builds transparency & trust, thereby maintaining & enhancing investor confidence.
 - (iii) Strong governance practices positively influence share prices.
 - (iv) Well-governed companies find it easier to access funds due to reduced financial risk.
 - (v) It enhances the company's reputation, leading to better recognition in the global market.
 - (vi) Strong governance practices contribute to an increase in the company's market valuation.

- (vii) Corporate governance lowers the likelihood of financial and operational crises by enabling timely risk management.
- (viii) It increases accountability by clearly defining the roles and responsibilities of the board and management.

QUESTION 2:

Discuss the elements/scope of good corporate governance. (ADDITIONAL QUESTION)

Ans:

corporate governance is basically application of best management practices, compliance with applicable laws in true letter and spirit and adherence with ethical standards for effective management and distribution of wealth and the discharge of social responsibility for sustainable development of all stakeholders. elements of good corporate governance are as explained below:

- (a) Board independence: effective governance requires an independent board and this can be achieved by appointing sufficient number of independent directors (ID's) and creating a balance between independent and non-independent directors.
- (b) Board meetings: Corporate governance emphasizes directors' preparation and active participation in board meetings to ensure informed and effective decisions.
- (c) Board induction and training: newly appointed directors should be introduced to the company's strategy and challenges. The company must provide training to keep them updated on developments affecting corporate governance.
- (d) Risk management: there should be a proper process to identify, analyze, and reduce risks that may prevent the company from achieving its goals.
- (e) Monitoring: the board should monitor and evaluate the performance of directors individually and collectively.
- (f) Audit committee: the quality of audit committee contributes to overall governance of company.
- (g) Legislation: there should be clear and unambiguous legislation which helps in promoting effective corporate governance, because those legislations which require more complex interpretations are more prone to manipulation and misinterpretation.

QUESTION 3:

**Independent board is essential for sound corporate governance. Comment. (JUNE 2016)
(2 MARKS)**

Ans:

- (a) Corporate governance is all about being transparent and independent in working and management of the company. Thus, appointment of independent directors ensures good governance being run in the enterprise.
- (b) Independent directors are those who have no conflict of interest In any manner whatsoever with the company or its management, this enables them to provide fair and impartial decision making keeping the welfare of the company and its stakeholder at the top most priority.

QUESTION 4:

What is Kyoto protocol? explain its objectives and the market-based mechanisms it introduced for reducing greenhouse gas emissions. (ADDITIONAL QUESTION)

Ans:

- (a) The Kyoto protocol is an international treaty which was the first legally binding agreement among countries to reduce greenhouse gas emission and combat climate change.
- (b) It was signed majorly between the developed countries and adopted by other developing countries as well placing heavier burden on developed countries under the principle of “common but differentiated responsibility.”
- (c) The protocol focuses on high greenhouse gas emissions in the atmosphere in which it focuses that all the countries must meet their targets through national measures.
- (d) It further provides three market based mechanisms as additional means for countries to meet their targets:
 - (i) International emissions trading
 - (ii) Clean development mechanism
 - (iii) Joint implementation

QUESTION 5:

Summarize the key recommendations made by the Uday Kotak Committee aimed at enhancing corporate governance standards in companies. (DEC,2019) (5 marks)

Ans:

- (a) In the year 2017, SEBI formed a committee under chairmanship of Uday Kotak committee aiming to improve standards of corporate governance in listed companies
- (b) The committee was requested to give recommendations on the following issues
 - (i) Disclosure and transparency related.
 - (ii) Improving effectiveness of board evaluation practices
 - (iii) Improving safeguards relating to RPT
 - (iv) Issues faced by investors in voting and participation in general meeting.
- (c) The recommendations given by the committee were as follows:
 - (i) Composition and role of Board of directors
 - (ii) Disclosures and transparency
 - (iii) Investors participation in meetings of listed companies
 - (iv) Board committees
 - (v) Institution of Independent directors

SEBI after a detailed consideration accepted several recommendations without any modification and few other recommendations with certain modifications some of the accepted changes include:

- (i) Increase in transparency enhanced disclosure requirements
- (ii) Enhanced disclosure on RPT
- (iii) Enhanced quorum
- (iv) Disclosure of expertise/ skills of directors
- (v) Capping the Maximum number of directorships

QUESTION 6:

Explain section 302 of Sarbenes-Oxley Act, 2002 i.e. corporate responsibility for financial reports. (JUNE,2012) (2 marks)

Ans.

- (a) In the year 2002 after the Enron scam the US passed an act to protect shareholders and public from accounting errors and fraudulent practices.
- (b) Section 302 of the act deals with corporate responsibility for financial reports:
 - (i) The CEO and CFO are responsible to review all the financial reports, for internal accounting controls and to report any deficiency in same to audit committee.
 - (ii) They are responsible to ensure that there has been no misrepresentation as well as that all information is fairly presented.

QUESTION 7:

Prepare a detailed note on institute of directors for promoting good corporate governance for UK business. (DEC 2021) (3 MARKS)

Ans.

The institute of directors (IOD), UK is a non-political business organization established in the UK in 1903.

The IOD seeks to provide an environment conducive to business success.

The objects of IOD are:

- (a) To promote high levels of skill, knowledge, integrity, and competence among directors and professionals.
- (b) To promote study and research in corporate governance.
- (c) To represent and protect the interests of the members and the business community.
- (d) To provide services, facilities, and benefits to members.