

Exposure Draft

SECRETARIAL STANDARD ON REPORT OF THE BOARD OF DIRECTORS

The following is the text of Secretarial Standard on “Report of the Board of Directors”, issued by the Council of the Institute of Company Secretaries of India.

Adherence by a company to this Secretarial Standard is recommendatory.

(In this Secretarial Standard, the Standard portions have been set in bold type. These shall be read in the context of the background material which has been set in normal. Both the Standard portions and the background material have equal authority)

INTRODUCTION

The Companies Act, 2013 requires the Board of Directors of every company to present Financial Statements to the shareholders alongwith their Report known as the “Report of the Board of Directors” or “Board’s Report”.

The Board’s Report is the most important means of communication by the Board of Directors of a company with its stakeholders. The Board’s Report should, so far as it is material for the appreciation of the state of the company’s affairs by its shareholders, deal with any changes which have occurred during the financial year. The Board’s Report should cover such information that would assist the stakeholders in understanding the business operations, prospects of the company’s business and quality of management. This Report serves to provide the stakeholders with both financial and non-financial information, including the performance and prospects of the company, relevant changes in the management, capital structure, major policies, recommendations as to the distribution of profits, future and ongoing programmes of expansion, modernization and diversification, capitalization of reserves, further issue of capital and other relevant information.

The Companies Act, 2013 (“**the Act**”) mandates certain disclosures in the Board’s Report. Further, certain additional disclosures, as applicable, are also required to be made in the Board’s Report under various other enactments viz. SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**Listing Regulations**”), SEBI (Share Based Employee Benefits) Regulations, 2014, Disclosure under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 etc.

However, companies which are governed by/registered under a separate enactment shall be required to make additional disclosures in their Board’s Report as stated in the respective enactments. For companies whose securities are listed on an overseas stock exchange, they shall be required to comply with additional requirements as may be specified by such stock exchanges.

SCOPE

This Standard prescribes a set of principles for preparation and presentation of the Report of the Board of Directors of a company and matters relating thereto.

The principles enunciated in this Standard are in conformity with the provisions of the Act and other laws as mentioned above. However, if, due to subsequent changes in the Act or any other laws, a particular Standard or any part thereof becomes inconsistent with the Act or other laws, the provisions of the Act or other laws shall prevail.

DEFINITIONS

The following terms are used in this Standard with the meaning specified:

“*Act*” means the Companies Act, 2013 (Act No. 18 of 2013) or any previous enactment thereof, or any statutory modification thereto or re-enactment thereof and includes any Rules and Regulations framed there under.

“*Associate company*”, in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

Explanation— For the purposes of this clause, “significant influence” means control of at least twenty per cent of total share capital, or of business decisions under an agreement.

Term ‘total share capital’ means aggregate of the (a) the paid-up equity share capital and (b) convertible preference share capital.

“*Board of Directors*” or “*Board*” in relation to a company, means the collective body of the directors of the company.

“*Body Corporate*” or “*Corporation*” includes a company incorporated outside India, but does not include—

- (i) a co-operative society registered under any law relating to co-operative societies; and
- (ii) any other body corporate (not being a company as defined in this Act), which the Central Government may, by notification, specify in this behalf.

“*Committee*” means a Committee of Directors mandatorily required to be constituted by the Board under the Act.

“*Company*” means a company incorporated under the Act or under any previous company law.

“*Employees’ Stock Option*” means the option given to the directors, officers or employees of a company or of its holding company or subsidiary company or companies, if any, which gives such directors, officers or employees, the benefit or right to purchase, or to subscribe for, the shares of the company at a future date at a pre-determined price.

“*Financial Year*” in relation to any company or body corporate, means the period ending on the 31st day of March every year, and where it has been incorporated on or after the 1st day of January of a year, the period ending on the 31st day of March of the following year, in respect whereof financial statement of the company or body corporate is made up.

Provided that on an application made by a company or body corporate, which is a holding company or a subsidiary of a company incorporated outside India and is required to follow a different financial year for consolidation of its accounts outside India, the Tribunal may, if it is satisfied, allow any period as its financial year, whether or not that period is a year.

“*Financial Statement*” in relation to a company, includes -

- (i) a balance sheet as at the end of the financial year;
- (ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
- (iii) cash flow statement for the financial year;
- (iv) a statement of changes in equity, if applicable; and
- (v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv).

“*Holding Company*” in relation to one or more other companies, means a company of which such companies are subsidiary companies.

“Housing Finance Company” means a company as defined under the Housing Finance Companies (National Housing Bank) Directions, 2010.

“Key Managerial Personnel” (KMP), in relation to a company, means—

- (i) the Chief Executive Officer or the managing director or the manager;
- (ii) the company secretary;
- (iii) the whole-time director;
- (iv) the Chief Financial Officer; and
- (v) such other officer as may be prescribed.

“Listed Company” means a company which has any of its securities listed on any recognised stock exchange.

“Member” in relation to a company, means—

- (i) the subscriber to the memorandum of the company who shall be deemed to have agreed to become member of the company, and on its registration, shall be entered as member in its register of members;
- (ii) every other person who agrees in writing to become a member of the company and whose name is entered in the register of members of the company;
- (iii) every person holding shares of the company and whose name is entered as a beneficial owner in the records of a depository;

“Miscellaneous Non-Banking Company” means a company as defined under Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 2016.

“Non-Banking Financial Company” or *“NBFCs”* means a company as defined in the Reserve Bank of India Act, 1934.

“Other Laws” means any law other than the Act which requires disclosures in the Board’s Report and as mentioned in this Standard. *“Preference Share Capital”*, with reference to any company limited by shares, means that part of the issued share capital of the company which carries or would carry a preferential right with respect to—

- (a) payment of dividend, either as a fixed amount or an amount calculated at a fixed rate, which may either be free of or subject to income-tax; and
- (b) repayment, in the case of a winding up or repayment of capital, of the amount of the share capital paid-up or deemed to have been paid-up, whether or not, there is a preferential right to the payment of any fixed premium or premium on any fixed scale, specified in the memorandum or articles of the company.

“Producer Company” means a body corporate having objects or activity specified in Section 581B and registered as Producer Company under the Companies Act, 1956.

“Promoter” means a person -

- (a) who has been named as such in a prospectus or is identified by the company in the annual return; or
- (b) who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; or
- (c) in accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act.

Provided that nothing in sub-clause (c) shall apply to a person who is acting merely in a professional capacity.

“*Report*” means Board’s Report or the Report of the Board of Directors.

“*Residuary Non-Banking Company*” means a company as defined under Residuary Non-Banking Companies (Reserve Bank) Directions, 2016.

“*Securities*” means the securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956;

Words and expressions used and not defined herein shall have the meaning respectively assigned to them under the Act.

SECRETARIAL STANDARDS

It is the Board’s responsibility to prepare and submit its Report to the shareholders with reference to the matters set out in the Act and other laws, and attach the said Report to the Financial Statements laid before the company at its annual general meeting.

1. FUNDAMENTAL DISCLOSURES

The Board’s Report shall be prepared based on the Standalone Financial Statements of the company and shall relate to the financial year in relation to which such Statements are prepared. It should include the following disclosures:

1.1 Financial summary and highlights

Key highlights of financial performance of the company viz. Turnover, Profit Before Tax and Profit After Tax.

1.2 Details of revision of Financial Statements or Board’s Report

In case the company has voluntarily revised its Financial Statements or Board’s Report in respect of any of the three preceding financial years, the detailed reasons for such revision should be disclosed in the Board’s Report of the relevant financial year in which such revision is being made.

1.3 Amount, which the Board proposes to carry to any reserves

The Report should disclose the amount, if any, proposed by the company to be transferred to its reserves. If no amount is proposed to be transferred to reserves, a statement to that effect should be incorporated in the Board’s Report.

1.4 Dividend

The Board’s Report shall disclose the amount per share and the percentage which the Board recommends to be paid as dividend. If any interim dividend has been paid during the year, details of the amount per share and percentage of such interim dividend should also be disclosed in the Board’s Report. The total amount to be utilized for payment of dividend (both interim and final) should be disclosed, stating separately the total outgo on account of dividend and the dividend distribution tax thereon, along with the corresponding figures of the previous year.

If no dividend has been recommended or declared during the year, a statement to that effect should be incorporated in the Board’s Report.

Details of transfer of dividend or shares to the Investor Education and Protection Fund, if any, shall also be disclosed in the Board’s Report.

1.5 Major events during the year

a) State of the company's affairs

The state of affairs of the company should relate to the period for which the Financial Statements have been prepared. Information and data which are usually considered pertinent and necessary for the purpose of proper appreciation of the state of affairs of a company relating to the period for which the Financial Statements have been prepared must be disclosed in the Report. Illustrative list of information that may be included in the Report are as follows -

- change in status of the company, if any;
- change in financial year, if any;
- major capital expenditure programmes;
- Details and status of acquisition, mergers, expansion, modernization and diversification;
- development, acquisition and assignment of Intellectual Property Rights (IPRs);
- Any other material event which has an impact on the affairs of the company.

b) Change in the nature of business

In case the company has commenced any new business or discontinued any of its existing business during the year, the Board's Report should disclose the details of such business and the reasons for the same.

c) Material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the Financial Statements relates and the date of the Report

The Board's Report shall include material changes and commitments, if any, affecting the financial position of the company and occurring between the date of the Balance Sheet and the date of the Report. The effect of such material events and an estimate of their financial impact should also be disclosed in the Report. If evaluation of such an estimate cannot be explicitly made, a statement may be incorporated in the Report to that effect. It is also desirable to mention the causes for such material events and the remedial measures in the Report.

2. GENERAL INFORMATION

- 2.1 Brief history of the company, overview of the industry and important changes in the industry during the last financial year;
- 2.2 Brief description of business segments and geographic segments;
- 2.3 External environment and economic outlook;
- 2.4 Induction of strategic and financial partners during the last financial year;
- 2.5 Brief description of the whistleblower mechanism and mechanism evolved for redressal of stakeholder's grievances.

3. CAPITAL STRUCTURE

The Board's Report shall contain details of any changes in the capital structure of the company during the financial year viz. issue of shares with differential rights, issue of sweat equity, ESOP, issue/redemption of debentures etc.

3.1 Details of preference and equity shares issued

During the financial year, if the company has issued any equity shares or preference shares, including shares issued upon conversion of securities, the following disclosures should be made in the Report:

- Date of allotment
- Method of allotment (QIP, FPO, GDRs, Rights, preferential, private placement, ESOP, conversion of securities etc.)
- Issue Price/Conversion Price
- Number of shares allotted
- Number of shares allotted to promoter group(including shares represented by Depository Receipts)
- In case shares are issued for consideration other than cash, a confirmation that price of such shares was determined on the basis of valuation report of the registered valuer.

3.2 Issue of equity shares with differential rights

During the financial year, if the company has issued equity shares with differential rights as to dividend, voting or otherwise, the following disclosures should be made in the Report of the financial year in which such issue is completed:

- (a) the total number of shares allotted with differential rights;
- (b) the details of the differential rights relating to voting rights and dividend;
- (c) the percentage of the shares with differential rights to the total post issue equity share capital with differential rights issued at any point of time and percentage of voting rights which the equity share capital with differential voting rights shall carry to the total voting rights of the aggregate equity share capital;
- (d) the price at which such shares have been issued;
- (e) the particulars of Promoters, Directors or Key Managerial Personnel to whom such shares are issued;
- (f) the change in control, if any, in the company consequent to the issue of equity shares with differential voting rights;
- (g) the diluted Earnings Per Share pursuant to the issue of each class of shares, calculated in accordance with the applicable accounting standards;
- (h) the pre and post issue shareholding pattern alongwith voting rights in the format specified under the Act.

3.3 Issue of Sweat Equity Shares

During the financial year, if the company has issued sweat equity shares, the following disclosures should be made in the Report of the financial year in which such shares are issued:

- (a) the class of Directors or employees to whom sweat equity shares are issued;
- (b) the class of shares issued as sweat equity shares;

- (c) the number of sweat equity shares issued to the Directors, Key Managerial Personnel or other employees showing separately the number of such shares issued to them, if any, for consideration other than cash and the individual names of allottees holding 1% or more of the issued share capital;
- (d) the reasons or justification for the issue;
- (e) the principal terms and conditions for issue of sweat equity shares, including pricing formula;
- (f) the total number of shares arising as a result of issue of sweat equity shares;
- (g) the percentage of the sweat equity shares to the total post issued and paid up share capital;
- (h) the consideration (including consideration other than cash) received or benefit accrued to the company from the issue of sweat equity shares;
- (i) the diluted Earnings Per Share pursuant to issue of sweat equity shares.

3.4 Issue of employee stock options

Listed Companies

Listed Companies shall make the following disclosures in the Board's Report as required under the SEBI (Share Based Employee Benefits) Regulations, 2014 as detailed below:

- (a) Material change(s) to the employee stock options scheme(s).
- (b) Whether such scheme(s) is in compliance with the SEBI (Share Based Employee Benefits) Regulations, 2014.

Listed Companies shall also make additional disclosures, as detailed in Annexure 1, on their websites with web-link being disclosed in the Board's Report.

Unlisted Companies

Unlisted Companies shall disclose the following details in their Board's Report with respect to its Employee Stock Option Scheme(s):

- (a) options granted;
- (b) options vested;
- (c) options exercised;
- (d) the total number of shares arising as a result of exercise of options;
- (e) options lapsed;
- (f) the exercise price;
- (g) variation of terms of options;
- (h) money realized by exercise of options;
- (i) total number of options in force;
- (j) employee wise details of options granted to;-
 - i. Key Managerial Personnel;
 - ii. any other employee who receives a grant of options in any one year of options amounting to 5% or more of total options granted during that year.
 - iii. identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant.

3.5 Issue of shares to trustees for benefit of employees

A company may introduce scheme(s) for purchase/subscription of the company's shares to be held by trustees for the benefit of employees. In such cases, where the voting rights are not exercised directly by the employees in respect of shares to which the scheme relates, the Board's Report shall disclose the following details:-

- a. the names of the employees who have not exercised the voting rights directly;
- b. the reasons for not voting directly;
- c. the name of the person who is exercising such voting rights;
- d. the number of shares held by or in favour of such employees and the percentage of such shares to the total paid up share capital of the company;
- e. the date of the general meeting in which such voting power was exercised;
- f. the resolution(s) on which votes have been cast by persons holding such voting power;
- g. the percentage of such voting power to the total voting power on each resolution;
- h. whether the votes were cast in favour of or against the resolution.

3.6 Issuance of any other securities which carries a right or option to convert into equity shares

During the financial year, if the company has issued any securities which carry a right or option to convert such securities into equity shares, the following disclosures should be made in the Report:

- Date of issue and allotment
- Method of allotment (QIP, FPO, GDRs, Rights, preferential, private placement etc.)
- Issue Price
- Conversion Price
- Number of equity shares to be allotted in case the option is exercised by all the holders of such securities
- Number of securities allotted to promoter group
- In case such securities are issued for consideration other than cash, a confirmation that price of such securities was determined on the basis of valuation report of a registered valuer.

3.7 Credit Rating

The Board's Report shall state the details of any new credit rating or revision in the rating obtained for various securities of the company during the year. In case of a downward revision in ratings, the company should also intimate the reasons provided by the rating agency for such downward revision.

4. MANAGEMENT

4.1 Directors and Key Managerial Personnel

The Report should disclose the name(s) of person(s) who have been appointed as/ceased to be Directors, including Independent Directors, and Key Managerial Personnel of the company during the year. In case of resignation of a Director during the year, such fact shall also be disclosed in the Board's Report.

Further, in case an Independent Director is re-appointed after completion of a term of five years by passing a special resolution, the Board's Report should contain a disclosure of such appointment.

Companies should also disclose names of the Directors retiring by rotation at the concerned annual general meeting and whether or not they offer themselves for re-appointment, and the names of Directors who have incurred any disqualification or who have vacated their office (during the reporting period) pursuant to the provisions of the Act or other laws.

The Board may voluntarily disclose such changes that took place after the end of the financial year but before the date of the Report.

Systemically Important Non-Deposit taking NBFCs and Deposit taking NBFCs may state in the Board's Report that appointment / re-appointment of Directors has been done in accordance with the Policy for ascertaining fit and proper criteria of the Directors.

4.2 Statement on declaration by Independent Directors

The Report shall contain a statement that necessary declaration with respect to independence, as required under the Act, has been received from all the Independent Directors of the company.

4.3 Number of Board & Committee Meetings

The number and dates of Meetings of the Board and its Committees held during the financial year should be disclosed in the Board's Report, indicating the number of Meetings attended by each Director/Committee Member.

4.4 Composition of Committees and details of changes, if any

The Board's Report should disclose composition of various Committees constituted by the Board of the company and changes in their composition during the year.

The following Committees are required to be constituted by prescribed class of companies under the Act:

- (a) Audit Committee
- (b) Nomination and Remuneration Committee
- (c) Corporate Social Responsibility Committee
- (d) Stakeholders Relationship Committee

Further, in cases where the Board has not accepted any recommendation of the Audit Committee, the same shall be disclosed in the Report along with the reasons therefore.

4.5 Company's Policy on Director's appointment and remuneration

The prescribed class of companies shall formulate a Policy relating to the remuneration of Directors, Key Managerial Personnel and other employees and disclose the said Policy either in the Report or by way of an annexure thereto. Such Policy should be recommended by the Nomination and Remuneration Committee and approved by the Board.

The prescribed class of companies should also disclose the criteria for determining qualifications, positive attributes and independence of Directors, as approved by the Nomination and Remuneration Committee.

4.6 Board Evaluation

The prescribed class of companies shall include a statement in the Report indicating the manner in which formal annual evaluation has been made by the Board of its own performance and that of its Committees and individual Directors, on an annual basis. Such evaluation should be based on criteria approved by the Nomination and Remuneration Committee.

4.7 Details of remuneration of Directors of Listed Companies

Every Listed Company shall make the following disclosures relating to the remuneration of Directors, either in the body of the Report or by way of an annexure thereto:

- (a) The number of permanent employees on the rolls of the company;
- (b) The ratio of remuneration of each Director to the median remuneration of the employees of the company for the financial year;

[(i) The expression “median” means the numerical value separating the higher half of a population from the lower half and the median of a finite list of numbers may be found by arranging all the observations from lowest value to highest value and picking the middle one; (ii) if there is an even number of observations, the median shall be the average of the two middle values.]

- (c) The percentage increase in remuneration of each Director, Chief Financial Officer, Chief Executive Officer, Company Secretary or Manager, if any, in the financial year;
- (d) The percentage increase in the median remuneration of employees in the financial year;
- (e) Average percentile increase already made in the salaries of employees other than managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration;
- (f) Affirmation that the remuneration is as per the remuneration policy of the company.

4.8 Remuneration received by Managing / Whole time Director from holding or subsidiary company

In case the Managing/Whole time Director of the company receives any commission from the company, he/she shall not be disqualified from receiving any remuneration or commission from the holding company or subsidiary company of such company subject to disclosure of such remuneration or commission in the Board’s Report of the company.

Thus, a company should disclose in its board’s report remuneration or commission from any holding company or subsidiary company received by Managing/Whole time Director.

4.9 Directors' Responsibility Statement

The Report shall include a Directors' Responsibility Statement which shall set out the following details:

- (a) in the preparation of the Annual Accounts, the applicable Accounting Standards have been followed along with proper explanation relating to material departures;
- (b) the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;
- (c) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (d) the Directors have prepared the Annual Accounts on a going concern basis;
- (e) the Directors, in the case of a listed company, have laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and are operating effectively; and
- (f) the Directors have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems are adequate and operating effectively.

The disclosure as stated under clause (e) above is applicable only to Listed Companies, whereas the other disclosures are applicable to all companies.

The Directors' Responsibility Statement should form part of the Report and should not be given as an Annexure to the Report.

4.10 Internal financial controls

All companies should disclose in the Board's Report, the details of internal financial controls laid in the companies with respect to the Financial Statements.

Listed Companies, in addition, should also confirm, as part of the Directors' Responsibility Statement, as to whether they have laid down internal financial controls and whether such controls are adequate and operating effectively.

4.11 Disclosure regarding frauds

If an Auditor (including Statutory Auditor, Secretarial Auditor and Cost Auditor) of a company in the course of performance of his duties as Auditor, has reason(s) to believe that an offence of fraud is being or has been committed in the company by its officers or employees, the Auditor shall report such frauds to the Audit Committee or to the Board (in cases where the company does not have an Audit Committee). Frauds involving amounts exceeding the prescribed ceilings are also required to be reported to the Central Government.

The following details of frauds reported by the Auditor (other than the frauds required to be reported to the Central Government) shall be disclosed in the Board's Report:-

- (a) Nature of Fraud with description;

- (b) Approximate amount involved;
- (c) Parties involved, if remedial action not taken; and
- (d) Remedial action taken.

If there are no frauds reported by the Auditor to the Audit Committee or to the Board, a statement to this effect may be given by the Board in the Report as a good practice.

5. DISCLOSURES RELATING TO SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

5.1 Report on performance and financial position of each of the subsidiaries, associates and joint ventures

In case of companies having subsidiaries, associates and joint ventures, the Report shall contain a separate section highlighting the performance of each of the subsidiaries, associates and joint venture companies and their contribution to the overall performance of the company during the reporting period. The said separate section may be given by the companies in Form AOC-1.

5.2 Companies which have become or ceased to be subsidiaries, associates and joint ventures

During the year, if the company has acquired or formed any new subsidiary, associate or joint venture, the details of such companies should be disclosed. Similarly, if any of the subsidiary, associate or joint venture of the company has ceased to be subsidiaries, associates or joint ventures by way of sale of shares, amalgamation, winding up etc., the names of such companies should also be disclosed in the Report.

6. DETAILS OF DEPOSITS

The following disclosures relating to Deposits shall be made in the Report:

- (a) details of Deposits accepted during the year;
- (b) Deposits remaining unpaid or unclaimed as at the end of the year;
- (c) whether there has been any default in repayment of Deposits or payment of interest thereon during the year and if so, the number of such cases and the total amount involved:
 - at the beginning of the year;
 - maximum during the year;
 - at the end of the year;
- (d) details of Deposits which are not in compliance with the requirements of the Act;
- (e) Details of revision, if any, in ratings assigned by credit rating agencies.

The Board's Report should also disclose the following details with respect to Deposits:

- Credit Rating obtained;
- Name of the Credit Rating Agency;

- Date on which the Credit Rating was obtained.

7. PARTICULARS OF LOANS, GUARANTEES AND INVESTMENTS

The Board's Report shall disclose full particulars of the loans given, investments made, guarantees given or securities provided during the year and the purpose for which the loan / guarantee / security is proposed to be utilised by the recipient of such loan/guarantee/security.

A company may provide the aforesaid disclosures in the Notes to the Financial Statements and give reference thereto in the Report.

8. PARTICULARS OF CONTRACTS OR ARRANGEMENTS WITH RELATED PARTIES

A company shall disclose details of the following contracts/arrangements/transactions with its related parties:

- contracts / arrangements / transactions with related parties which are not at arm's length; and
- material contracts / arrangements / transactions with related parties which are at arm's length.

Such disclosure should be made in the prescribed Form AOC-2.

Companies may determine the materiality threshold for the purpose of clause (b) above.

For this purpose, Listed Companies may refer to the materiality threshold prescribed under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

9. DISCLOSURES PERTAINING TO CORPORATE SOCIAL RESPONSIBILITY

The Board's Report of the prescribed class of companies shall disclose the details of corporate social responsibility initiatives undertaken by companies during the year.

Such disclosure should contain the following:

- Brief outline of the company's CSR Policy, including overview of the projects or programs proposed to be undertaken and a reference to the web link of such Policy being put up on the website of the company.
- Composition of the CSR Committee.
- Average net profits of the company for the last three financial years.
- Prescribed CSR expenditure [i.e. 2% of Clause (c) above].
- Details of CSR spend during the financial year including total amount to be spent, amount unspent and manner in which the amount has been spent.

In case the prescribed CSR expenditure has not been made, the Board should specify the reasons for not spending the amount.

Further, the aforesaid disclosure should also contain a responsibility statement from the CSR Committee that the implementation and monitoring of the CSR Policy is in compliance with the CSR objectives and policy of the company.

The aforesaid information can be given by way of an Annexure to the Report.

10. DETAILS OF REMUNERATION OF EMPLOYEES

The Board's Report shall include a statement showing the names of top ten employees in terms of remuneration drawn and the name of every employee who:

- (a) if employed throughout the financial year, was in receipt of remuneration for that year which, in the aggregate, was not less than rupees one crore and two lakh rupees;
- (b) if employed for a part of the financial year, was in receipt of remuneration for any part of that year, at a rate which, in the aggregate, was not less than rupees eight lakh fifty thousand per month;
- (c) if employed throughout the financial year or part thereof, was in receipt of remuneration in that year which, in the aggregate, is in excess of that drawn by the Managing Director or Whole-time Director or Manager and held by himself or along with his spouse and dependent children, not less than 2% of the equity shares of the company.

The aforesaid Statement should also indicate the following –

- 1. Designation of the employee;
- 2. Remuneration received;
- 3. Nature of employment, whether contractual or otherwise;
- 4. Qualifications and experience of the employee;
- 5. Date of commencement of employment;
- 6. The age of such employee;
- 7. The last employment held by such employee before joining the company;
- 8. The percentage of equity shares held by the employee in the company within the meaning of Clause (c) as stated above;
- 9. Whether any such employee is a relative of any Director or Manager of the company and if so, name of such Director or Manager.

The particulars of employees posted and working in a country outside India, not being Directors or their relatives, drawing more than sixty lakh rupees per financial year or five lakh rupees per month, as the case may be, as may be decided by the Board, shall not be circulated to the members in the Board's Report, but such particulars shall be filed with the Registrar of Companies while filing the Financial Statements and the Board's Report.

11. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The Report should disclose the following information:

(a) Conservation of energy -

- (i) the steps taken or impact on conservation of energy;
- (ii) the steps taken by the company for utilising alternate sources of energy;
- (iii) the capital investment on energy conservation equipments.

(b) Technology absorption -

- (i) the efforts made towards technology absorption;
- (ii) the benefits derived like product improvement, cost reduction, product development or import substitution;

(iii) in case of imported technology (imported during the last three years reckoned from the beginning of the financial year under reference) –

- the details of technology imported;
- the year of import;
- whether the technology has been fully absorbed and if not, areas where absorption has not taken place, and the reasons thereof;

(iv) the expenditure incurred on Research and Development.

(c) Foreign exchange earnings and Outgo – The Foreign Exchange earned in terms of actual inflows during the year and the Foreign Exchange outgo during the year in terms of actual outflows.

In cases where such disclosures are not applicable, the Report should contain a statement to that effect.

12. RISK MANAGEMENT

The Board's Report shall contain a statement indicating development and implementation of a risk management policy for the company which shall, *inter alia*, disclose various elements of risk, if any, which in the opinion of the Board may threaten the existence of the company and the mitigation strategies adopted by the company to handle and manage such risks.

Every company shall frame a risk management policy which should include the risk management framework and processes adopted by the company. The highlights of the said policy may be disclosed in the Report.

Listed Companies and certain classes of NBFCs are required to constitute a Risk Management Committee to monitor and review the risk management plan and process in such companies.

13. MATERIAL ORDERS OF REGULATORS

The company should disclose the details of significant and material orders passed by the Regulators, Courts and Tribunals impacting the going concern status of the company and its future operations.

14. DETAILS OF ESTABLISHMENT OF VIGIL MECHANISM

The Board's Report of prescribed class of companies shall disclose the details as to establishment of vigil mechanism in the companies. Such mechanism which shall provide for adequate safeguards against victimization of Director(s) or employee(s) or any other person who avails the mechanism and also provide for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases.

The Audit Committee of such companies shall oversee the vigil mechanism. In case of companies which are not required to constitute Audit Committee, the Board shall nominate a Director to play the role of Audit Committee for the purpose of vigil mechanism to whom other Directors and employees may report their concerns.

The listed companies shall devise an effective whistle blower mechanism enabling stakeholders, including individual employees and their representative bodies, to freely communicate their concerns about illegal or unethical practices.

The Audit Committee of the listed companies shall be responsible to periodically review the functioning of this mechanism.

15. AUDITORS

Names of the Auditors including Statutory Auditors, Cost Auditors and Secretarial Auditors should be stated in the Report.

The name of Statutory Auditors proposed for ratification by the Members at the concerned annual general meeting and their remuneration proposed for approval of the Members should also be stated in the Report.

16. SECRETARIAL AUDIT REPORT

The prescribed class of companies should annex with the Board's Report, the Secretarial Audit Report which should be in Form MR-3.

17. EXPLANATIONS IN RESPONSE TO AUDITORS' QUALIFICATIONS

The Report should contain the information and explanations on every reservation, qualification or adverse remark contained in the:

- Statutory Auditor's Report
- Secretarial Auditor's Report

The Report shall provide explanations or comments by the Board on each such reservation, qualification or adverse remark alongwith the circumstances necessitating the such reservation, qualification or adverse remark, its likely impact on the Financial Statement and the corrective measures that are proposed to be taken.

If there are no qualifications, reservations or adverse remarks made by the Statutory Auditors/Secretarial Auditors in their respective Report, a statement to this effect may be given by the Board in the Report as a good practice.

18. COMPLIANCE WITH SECRETARIAL STANDARDS

The Board's Report of every company shall include a statement on compliance of Secretarial Standards.

19. DETAILS OF SICKNESS OF THE COMPANY

In case the company has become a sick company, the Report should provide the factors leading to such sickness and the steps proposed to be taken in this connection.

20. FAILURE TO COMPLETE BUY BACK

In case the company has failed to complete buy-back of its securities within the time prescribed under the Act, the Report should disclose the reasons for the same.

Similarly, the Report should also disclose the reasons for failure to implement any proposal relating to preferential allotment or failure to pay interest or redeem debentures or preference shares on the respective due date and the remedial measures taken or proposed to be taken by the company in this connection.

The Report should also specify the reasons for failure, if any, to transfer dividend or shares to the Investor Education and Protection Fund and the remedial measures taken by the company.

21. EXTRACT OF ANNUAL RETURN

The Report of every company shall include an Extract of Annual Return in Form MGT-9. The same may be given by way of an Annexure to the Report.

The details to be disclosed in Form MGT-9 should be as on the close of the Financial Year of the company.

The company may also place a copy of the annual return on the website of the company, if any, and the web-link of such annual return may be disclosed in the Board's Report.

22. OTHER DISCLOSURES

22.1 The Report should state, wherever applicable, that the consolidated financial statements are also being presented in addition to the standalone financial statements of the company.

22.2 The Report should also include the following:

- (a) reasons for delay, if any, in holding annual general meeting;
- (b) key business developments during the year.
- (c) key initiatives with respect to the following
 - Stakeholders relationship;
 - Customers relationship;
 - Environment;
 - Sustainability;
 - Health and safety.

23. DISCLOSURES UNDER SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

23.1 Statement of deviation(s) or variation(s)

Listed Companies are required to submit to Stock Exchanges the following statement(s) on a quarterly basis in connection with public issue, rights issue, preferential issue etc.-

- Statement indicating deviations, if any, in the use of proceeds from the objects stated in the offer document or explanatory statement to the notice for the general meeting, as applicable;
- Statement indicating category wise variation (capital expenditure, sales and marketing, working capital etc.) between projected utilisation of funds made by the company in its offer document or explanatory statement to the notice for the general meeting, as applicable and the actual utilisation of funds.

Listed companies shall also furnish explanations for the aforesaid variations in the Board's Report.

23.2 Management Discussion and Analysis Report

Listed Companies should prepare, as part of the Board's Report or as an addition thereto, a Management Discussion and Analysis Report which should include discussion on the following matters:

- Industry structure and developments;
- Opportunities and Threats;
- Segment wise and product wise performance;
- Outlook;
- Risks and concerns;
- Internal control systems and their adequacy;
- Discussion on financial performance with respect to operational performance;
- Material developments in Human Resources / Industrial Relations front, including number of people employed.

23.3 Certificate on compliance of conditions of corporate governance

Listed companies shall obtain a certificate from either the Statutory Auditors or practicing company secretaries regarding compliance of conditions of corporate governance as stipulated in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2014 and annex the certificate with the Board's Report.

24. DISCLOSURES UNDER THE SEXUAL HARASSMENT OF WOMEN AT THE WORKPLACE (PREVENTION, PROHIBITION & REDRESSAL) ACT, 2013

The following details of sexual harassment cases filed, if any, in the company during the financial year, should be disclosed in the Board's Report:-

- Number of complaints of sexual harassment received in the year;
- Number of complaints disposed off during the year;
- Number of cases pending for more than ninety days;
- Number of workshops or awareness programmes carried out in connection with sexual harassment
- Remedial measures taken by the company.

25. ADDITIONAL DISCLOSURES PURSUANT TO DIRECTIONS OF RESERVE BANK OF INDIA

25.1 Systemically Important NBFCs and Deposit taking NBFCs

Systemically Important Non-Deposit taking NBFCs and Deposit taking NBFCs should make the following disclosures either in the Board's Report or in the Annual Report:

- (a) Details of all material transactions with related parties and Policy on dealing with Related Party Transactions.
- (b) All pecuniary relationship or transactions of the Non-Executive Directors vis-à-vis the company.
- (c) In connection with loans given against security of gold jewellery, details of auction conducted during the financial year including the number of loan accounts, outstanding

amounts, value fetched and whether any of its sister concerns participated in the auction.

(d) In case of issue of Perpetual Debt Instruments (PDIs), the following:

- 1) Amount of funds raised through PDIs during the year and outstanding at the close of the financial year;
- 2) Percentage of the amount of PDIs to the amount of its Tier I Capital;
- 3) Financial year in which interest on PDIs has not been paid in accordance with the Lock-in clause.

Further, the aforesaid classes of NBFCs should prepare either as part of the Board's Report or as an addition thereto, a Management Discussion and Analysis Report which should include discussion on all the matters as specified in Clause 23.2 above, as applicable to Listed Companies.

25.2 NBFCs, Miscellaneous Non-Banking Companies and Residuary Companies

The Report should include the information on:

- (a) the total number of depositors with the company whose deposits have not been claimed by the depositors or not paid by the company after the date on which the deposit became due for repayment or renewal, as the case may be, according to the contract with the depositor or the Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 2016 or the Residuary Non-Banking Companies (Reserve Bank) Directions, 2016, as applicable; and**
- (b) the total amounts due under such accounts remaining unclaimed or unpaid beyond the due date for repayment;**
- (c) compliance with the Residuary Non-Banking Companies (Reserve Bank) Directions, 2016, if applicable.**

The said particulars or information should be furnished with reference to the position as on the last day of the financial year to which the Report relates and if the amounts remaining unclaimed or undisbursed as referred to above exceed in the aggregate Rs. 5 lakhs, there should also be included in the Report a statement on the steps taken or proposed to be taken by the Board for the repayment of the amounts due to the depositors remaining unclaimed or undisbursed.

26. ADDITIONAL DISCLOSURES PURSUANT TO NATIONAL HOUSING BANK DIRECTIONS

The Report should include information on:

- (a) the total number of accounts of public deposit of the housing finance company which have not been claimed by the depositors or not paid by the housing finance company after the date on which the deposit became due for repayment; and**
- (b) the total amounts due under such accounts remaining unclaimed or unpaid beyond the due date for repayment.**

The said information should be furnished with reference to the position as on the last date of the financial year to which the Report relates. If the amounts remaining unclaimed or undisbursed, as referred to in point (b) above, exceed in the aggregate Rs. 5 lakhs, the Report should also

include a statement on the steps taken or proposed to be taken by the Board for the repayment of the amounts due to the depositors or group of joint depositors and remaining unclaimed or undisbursed.

27. ADDITIONAL DISCLOSURES PURSUANT TO FEMA REGULATIONS

Companies owned or controlled by non-resident entities should obtain a certificate from the Statutory Auditors on an annual basis as regards status of compliance with the instructions on downstream investment, as provided in Foreign Exchange Management (Transfer or Issue of Security by A Person Resident Outside India) (Ninth Amendment) Regulations, 2013. The fact that Statutory Auditors have certified that the company is in compliance with the aforesaid Regulations will be duly mentioned in the Board's Report of such companies.

28. ADDITIONAL DISCLOSURES BY PRODUCER COMPANY

The Board's Report of a Producer Company shall contain the following disclosures:

- (a) Amounts to be paid as limited return on share capital.
- (b) Amounts, if any, proposed to be disbursed as patronage bonus.

29. APPROVAL OF THE REPORT

The Report should be considered and approved by means of a resolution passed at a duly convened meeting of the Board. The same cannot be approved by circulation. It shall also not be dealt with in a Board meeting held through video conferencing or other audio visual means.

30. SIGNING AND DATING OF THE REPORT

The Report should be signed by the Chairman of the company, if any, authorised in that behalf by the Board, or, by not less than two Directors of the company, one of whom should be Managing Director, where there is one. In case the company has only one Director, the Report should be signed by the said Director.

If the Auditor's Report is available for consideration at the time of approving the Board's Report, the Board's Report may bear the same date as that of the Auditor's Report or a later date as authorised by the Board. However, if the Auditor's Report is dated subsequent to the date of Board's Report, then the Board's Report may bear the same date or a date after the date of the Auditor's Report.

The following are required to be annexed to the Board's Report:

- Particulars of prescribed contracts / arrangements with related parties in Form AOC-2. This Form shall be signed by the persons who have signed the Board's Report.
- Prescribed particulars of remuneration of Directors and employees
- Secretarial audit report for the relevant financial year in Form MR-3
- Extract of Annual Return in Form MGT-9
- Annual report on CSR activities. This Report shall be signed by Chief Executive Officer/Managing Director/Director and by the Chairman of CSR Committee.
- Policy relating to remuneration of Directors, Key Managerial Personnel and other employees.
- Prescribed details of conservation of energy, research and development, technology absorption, foreign exchange earnings and outgo
- Auditors' certificate on Corporate Governance in case of Listed Companies.

31. COLLECTIVE RESPONSIBILITY OF THE BOARD

31.1 The Report should be the collective responsibility of all the Directors though the Report may have been approved only by a majority of the Directors.

31.2 The Board should be collectively responsible for any statement in its Report which is materially false or for any omission of a material fact, knowing it to be material.

32. FILING OF THE BOARD'S REPORT

The Report alongwith the audited Financial Statements of the company should be filed with the Registrar of Companies within the prescribed time limit.

The resolution passed by the Board approving such Report shall also be filed with the Registrar of Companies.

33. CONSISTENCY

The Board should ensure consistency of information given in the Report, the Report on Corporate Governance and the explanatory statements to resolutions.

34. RIGHT OF MEMBERS TO COPIES OF REPORT

34.1 A copy of the Report alongwith the Financial Statements and the Auditor's Report should be sent, either physically or in electronic form, so as to reach every Member not less than 21 days before the date of the annual general meeting.

34.2 The Report should be supplied to each Member of the company.

The Report should also be put up on the website of the company. Every Non-Banking Financial Company, Miscellaneous Non-Banking Company and Residuary Company should deliver to the Reserve Bank of India, its audited Financial Statements together with a copy of the Board's Report.

Every Housing Finance Company should deliver to the National Housing Bank, its audited Financial Statements together with a copy of the Board's Report.

EFFECTIVE DATE

This Standard is effective from

Disclosures under the SEBI (Share Based Employee Benefits) Regulations, 2014

Listed Companies shall make the following disclosures on their website with web link being disclosed in the Board's Report:

- A. Relevant disclosures in terms of the 'Guidance note on accounting for employee share-based payments' issued by ICAI or any other relevant accounting standards as prescribed from time to time.
- B. Diluted Earnings per Share on issue of shares pursuant to all the schemes covered under the regulations shall be disclosed in accordance with 'Accounting Standard 20 - Earnings Per Share' issued by ICAI or any other relevant accounting standards as prescribed from time to time.

C. Details related to Employee Stock Options Scheme(ESOS)

- (i) A description of each ESOS that existed at any time during the year, including the general terms and conditions of each ESOS, including -
 - (a) Date of shareholders' approval
 - (b) Total number of options approved under ESOS
 - (c) Vesting requirements
 - (d) Exercise price or pricing formula
 - (e) Maximum term of options granted
 - (f) Source of shares (primary, secondary or combination)
 - (g) Variation in terms of options
- (ii) Method used to account for ESOS - Intrinsic or fair value.
- (iii) Where the company opts for expensing of the options using the intrinsic value of the options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options shall be disclosed. The impact of this difference on profits and on EPS of the company shall also be disclosed.
- (iv) Option movement during the year (For each ESOS):

Particulars	Details
Number of options outstanding at the beginning of the period	
Number of options granted during the year	
Number of options forfeited / lapsed during the year	
Number of options vested during the year	
Number of options exercised during the year	
Number of shares arising as a result of exercise of options	
Money realized by exercise of options (INR), if scheme is implemented directly by the company	
Loan repaid by the Trust during the year from exercise price received	
Number of options outstanding at the end of the year	
Number of options exercisable at the end of the year	

- (v) Weighted-average exercise prices and weighted-average fair values of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock.
- (vi) Employee wise details (name of employee, designation, number of options granted during the year, exercise price) of options granted to -
 - (a) senior managerial personnel;
 - (b) any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year; and
 - (c) identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant.
- (vii) A description of the method and significant assumptions used during the year to estimate the fair value of options including the following information:
 - (a) the weighted-average values of share price, exercise price, expected volatility, expected option life, expected dividends, the risk-free interest rate and any other inputs to the model;
 - (b) the method used and the assumptions made to incorporate the effects of expected early exercise;
 - (c) how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; and
 - (d) whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition.

Disclosures in respect of grants made in three years prior to IPO under each ESOS

- (i) Until all options granted in the three years prior to the IPO have been exercised or have lapsed, disclosures of the information specified above in respect of such options shall also be made.

D. Details related to Employee Stock Purchase Scheme (ESPS)

- (i) The following details on each ESPS under which allotments were made during the year:
 - (a) Date of shareholders' approval
 - (b) Number of shares issued
 - (c) The price at which such shares are issued
 - (d) Lock-in period
- (ii) The following details regarding allotment made under each ESPS, as at the end of the year :

Particulars	Details
The details of the number of shares issued under ESPS	
The price at which such shares are issued	
Employee-wise details of the shares issued to; (i) senior managerial personnel; (ii) any other employee who is issued shares in any one year amounting to 5% or more shares issued during that year; (iii) identified employees who were issued shares during any one year equal to or exceeding 1% of the issued capital of the company at the time of issuance;	
Consideration received against the issuance of shares, if scheme is implemented directly by the company	
Loan repaid by the Trust during the year from exercise price received	

E. Details related to Stock Appreciation Rights (SAR)

- (i) A description of each SAR scheme that existed at any time during the year, including the general terms and conditions of each SAR scheme, including -
 - (a) Date of shareholders' approval
 - (b) Total number of shares approved under the SAR scheme
 - (c) Vesting requirements
 - (d) SAR price or pricing formula
 - (e) Maximum term of SAR granted
 - (f) Method of settlement (whether in cash or equity)
 - (g) Choice of settlement (with the company or the employee or combination)
 - (h) Source of shares (primary, secondary or combination)
 - (i) Variation in terms of scheme
- (ii) Method used to account for SAR - Intrinsic or fair value.
- (iii) Where the company opts for expensing of SAR using the intrinsic value of SAR, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of SAR, shall be disclosed. The impact of this difference on profits and on EPS of the company shall also be disclosed.
- (iv) SAR movement during the year (For each SAR scheme):

Particulars	Details
Number of SARs outstanding at the beginning of the year	
Number of SARs granted during the year	
Number of SARs forfeited / lapsed during the year	
Number of SARs vested during the year	
Number of SARs exercised / settled during the year	
Number of SARs outstanding at the end of the year	
Number of SARs exercisable at the end of the year	

- (v) Employee-wise details (name of employee, designation, number of SAR granted during the year, exercise price) of SAR granted to -
 - (a) senior managerial personnel;
 - (b) any other employee who receives a grant in any one year of amounting to 5% or more of SAR granted during that year; and
 - (c) identified employees who were granted SAR, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant.

Disclosures in respect of grants made in three years prior to IPO under each SAR scheme

- (i) Until all SARs granted in the three years prior to the IPO have been exercised or have lapsed, disclosures of the information specified above in respect of such SARs shall also be made

F. Details related to General Employee Benefits Scheme (GEBS) / Retirement Benefits Scheme (RBS)

- (i) A description of each GEBS / RBS scheme that existed at any time during the year, including the general terms and conditions of each such scheme, including –
 - (a) Date of shareholders' approval
 - (b) Kind of benefits to be granted under the scheme
 - (c) Beneficiaries of the scheme

- (d) Total assets of the scheme
- (e) Quantum of holding in own shares / listed holding company shares (both absolute and in percentage)
- (f) Whether scheme is in compliance of regulation 26(2) / 27(3) of the regulations, as applicable
- (g) Variation in terms of scheme

G. Details related to Trust

The following details, *inter alia*, in connection with transactions made by the Trust meant for the purpose of administering the schemes under the regulations are to be disclosed:

(i) General information on all schemes

Sl. No.	Particulars	Details
1.	Name of the Trust	
2.	Details of the Trustee(s)	
3.	Amount of loan disbursed by company / any company in the group, during the year	
4.	Amount of loan outstanding (repayable to company / any company in the group) as at the end of the year	
5.	Amount of loan, if any, taken from any other source for which company / any company in the group has provided any security or guarantee	
6.	Any other contribution made to the Trust during the year	

(ii) Brief details of transactions in shares by the Trust

- (a) Number of shares held at the beginning of the year;
- (b) Number of shares acquired during the year through (i) primary issuance (ii) secondary acquisition, also as a percentage of paid up equity capital as at the end of the previous financial year, along with information on weighted average cost of acquisition per share;
- (c) Number of shares transferred to the employees / sold along with the purpose thereof;
- (d) Number of shares held at the end of the year.

(iii) In case of secondary acquisition of shares by the Trust

Number of shares	As a percentage of paid-up equity capital as at the end of the year immediately preceding the year in which shareholders' approval was obtained
Held at the beginning of the year	
Acquired during the year	
Sold during the year	
Transferred to the employees during the year	
Held at the end of the year	
