

BOARD COMMITTEES

- This is with reference to my classroom lecture for students of SRCC , B.com(H), 3 year section H and I

• **Audit committee**
(refer Audit committee notes given in class under clause 49)

AUDIT COMMITTEE CLAUSE II

(A) Qualified and Independent Audit Committee

- A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following:
- The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors.
- All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.
- Explanation 1: The term "financially literate" means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

MEETING OF AUDIT COMMITTEE CLAUSE II B

- Audit committee should meet atleast four times in a year (earlier it was 3 meetings in an year and once in every 6 months)
- Not more than four months gap between two meetings
- Quorum comprises 2 or 1/3 whichever is higher and atleast 2 members to be independent

POWERS OF AUDIT COMMITTEE CLAUSE II C

- To investigate any activity within terms of reference
- To seek information from any employee
- To obtain legal or other professional advice
- To secure attendance of outsiders with relevant expertise if it considers nesscessary

ROLE OF AUDIT COMMITTEE CLAUSE II D

- Oversight company's financial reports and disclosure
- Recommending to the board the appointment re appointment and if required the replacement or removal of the statutory auditor or fixation of audit fees
- Approval of payment to statutory auditors for any other services rendered by statutory auditors

- Reviewing with the management the annual financial before submission to the board for approval
- Matters required to be included in the director's responsibility statement to be included in the board's report I terms of clause
- Changes if any in accounting ploicies and practices and reasons for the same
- Major accounting entries involving estimates based on the exercise of judgement by management

- Significant adjustments made in the financial statements arising out of audit findings
- Compliance with listing and other requirement relating to financial statements
- Disclosure of any related party transactions
- Qualifications in the draft audit report

REVIEW BY AUDIT COMMITTEE CLAUSE II E

- The Audit Committee shall mandatorily review the following information:
- Management discussion and analysis of financial condition and results of operations;
- Statement of significant related party transactions (as defined by the audit committee), submitted by management;
- Management letters / letters of internal control weaknesses issued by the statutory auditors;
- Internal audit reports relating to internal control weaknesses; and
- The appointment, removal and terms of remuneration of the Chief internal auditor shall

EXPECTATIONS OF THE AUDIT COMMITTEE

- Transparency
- That financial disclosure / financial statements are correct , sufficient and credible
- That frauds , irregularities , failure of internal control system within the organization is minimized

REMUNERATION COMMITTEE

- *(Refer non mandatory provision of clause 49)*

Meaning:

- (i) A remuneration committee might be set up by Board to determine the company's policy on specific remuneration packages for executive directors.
- (ii) To avoid conflicts of interest, the committee to be comprised of at least 3 directors, all of whom should be non-executive directors and the chairman an independent director.
- (iii) All members of the committee to be present at the meetings.
- (iv) Chairman of the committee to be present at the meetings to answer the shareholder queries.

- **Frequency of meeting:**

The frequency with which the remuneration committee needs to meet varies from company to company. However, they must meet close to the year end to review the matters

ROLE OF REMUNERATION COMMITTEE

To disclose :

- All pecuniary relationship or transactions of the non-executive directors vis-à-vis the company shall be disclosed in the Annual Report.
- Further the following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the Annual Report:
 - All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension etc.
 - Details of fixed component and performance linked incentives, along with the performance criteria.
 - Service contracts, notice period, severance fees.
 - Stock option details, if any - and whether issued at a discount as well as the period over which accrued and over which exercisable.

- The company shall publish its criteria of making payments to non-executive directors in its annual report. Alternatively, this may be put up on the company's website and reference drawn thereto in the annual report.
- The company shall disclose the number of shares and convertible instruments held by non-executive directors in the annual report.
- Non-executive directors shall be required to disclose their shareholding (both own or held by / for other persons on a beneficial basis) in the listed company in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director

NOMINATION COMMITTEE

- The major function of a Nomination Committee is to assist the Board of Directors in developing and administering a fair and transparent procedure for setting policy on the overall human resources strategy of the company and the remuneration of Directors and senior management of the company, and for determining their remuneration packages. The company should provide the Nomination Committee sufficient resources to perform its duties.

- **Composition:** According to Corporate Governance Code and Corporate Governance Report, all listed companies should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.
- **Frequency of meetings:**
Meets as often as necessary to submit recommendation to the board

PURPOSE OF NOMINATION COMMITTEE

- The nomination committee should be established with specific written terms of reference which deal clearly with its duties and its authority delegated by the Board of Directors. Such information should be made available on the Exchange's website and its website.
- The nomination committee of a listed company should be responsible for reviewing the structure, and composition of the board at least annually and making recommendations to the board to complement its corporate strategy. It should identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships. It is also responsible for assessing the independence of independent non-executive directors. Besides, it should make recommendation to the board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

COMPLIANCE COMMITTEE

- The board is required to organize the compliance committee, which is chaired by the chief compliance officer. A typical committee in a small community bank would include the following members:
 - ■ Chief credit officer (committee chairman)
 - ■ Chief of operations and private banking manager (deputy committee chairman)
 - ■ Chief financial officer (deputy committee chairman)
 - ■ Manager of loan administration and credit analysis
 - ■ Technology coordinator
- The bank compliance committee may have the following subgroups, which will focus on specific compliance activities:

- ⦿ New Accounts, Customer Service, and Information Security and Technology Compliance
- ⦿ ■ Credit Operations Compliance
- ⦿ ■ Financial and Accounting Operations Compliance
- ⦿ The committee is expected to meet periodically (e.g., quarterly) or on an as-needed basis.
- ⦿

- ⦿ compliance committee will be responsible for the following tasks:
 - ⦿ ■ Design, implement, test, proctor, and certify the compliance program.
 - ⦿ ■ Develop and continually update all bank policies and procedures.
 - ⦿ ■ Develop a continual training and educational program to train the staff, management, and directors on issues pertaining to compliance.
 - ⦿ ■ Develop an internal audit program to self-audit different aspects of the compliance functions using outside independent auditors.
 - ⦿ ■ Perform an annual risk-based audit program to identify areas of the bank operations that need auditing and the frequency needed to perform the audit.
 - ⦿ ■ Develop the compliance audit scope in light of a *risk-based audit program*, and screen outside independent auditors to identify the most qualified entity that can perform the audit.
 - ⦿

- ⦿ Make recommendations to the board of directors regarding the outside independent auditor(s) and scope of each audit; the board of directors has final approval.
- ⦿ Perform internal auditing of the compliance of each subgroup in a *certification program* to ensure that each department has external oversight (e.g., the credit group would audit the operations group; the operations group would audit and certify the financial and accounting group; and the financial and accounting group would audit and certify the credit group).
- ⦿ Clearly, the formality of the compliance program will increase in direct proportion to asset size, complexity, or diversity (including geographic) of operations of the bank. The board of directors and upper management should discuss these needs as they develop and should promptly take action to meet these needs

RISK MANAGEMENT: (REFER BOARD DISCLOSURE POINT OF CLAUSE 49)

- ⦿ Risk Management is defined as the overall process of risk identification, quantification, evaluation, acceptance, aversion and management. The decisions are made by considering Risk Assessments within the context of political, social and economic realities. Such decisions are frequently controversial due to the difficulty in determining risks that are acceptable to the public.
- ⦿ Risk management includes Risk Assessment and Risk Control and Risk Assessment includes Risk Determination and Risk Evaluation

ROLE OF REMUNERATION

- To assess the Company's risk profile and key areas of risk in particular.
- To recommend the Board and adoption of risk assessment and rating procedures.
- To articulate the Company's policy for the oversight and management of business risks.
- To examine and determine the sufficiency of the Company's internal processes for reporting on and managing key risk areas.
- To assess and recommend the Board acceptable levels of risk.
- To develop and implement a risk management framework and internal control system.
- To review the nature and level of insurance coverage.
- To have special investigations into areas of corporate risk and break-downs in internal control.
- To review management's response to the Company's auditors' recommendations those are adopted.
- To report the trends on the Company's risk profile, reports on specific risks and the status of the risk management process.

RESPONSIBILITY

- To define the risk appetite of the organization.
- To exercise oversight of management's responsibilities, and review the risk profile of the organization to ensure that risk is not higher than the risk appetite determined by the board.
- To ensure that the Company is taking appropriate measures to achieve prudent balance between risk and reward in both ongoing and new business activities.
- To assist the Board in setting risk strategies, policies, frameworks, models and procedures in liaison with management and in the discharge of its duties relating to corporate accountability and associated risk in terms of management assurance and reporting.
- To review and assess the quality, integrity and effectiveness of the risk management systems and ensure that the risk policies and strategies are effectively managed.
- To review and assess the nature, role, responsibility and authority of the risk management function within the Company and outline the scope of risk management work.
- To ensure that the Company has implemented an effective ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to activate what is necessary to pro-actively manage these risks, and to decide the Company's appetite or tolerance for risk.
- To ensure that a systematic, documented assessment of the processes and outcomes surrounding key risks is undertaken at least annually for the purpose of making its public statement on risk management including internal control.

- To oversee formal reviews of activities associated with the effectiveness of risk management and internal control processes.
- To review processes and procedures to ensure the effectiveness of internal systems of control so that decision-making capability and accuracy of reporting and financial results are always maintained at an optimal level.
- To monitor external developments relating to the practice of corporate accountability.
- To provide an independent and objective oversight and view of the information presented by the management on corporate accountability and specifically associated risk.
- To review the risk bearing capacity of the Company in light of its reserves, insurance coverage, guarantee funds or other such financial structures.
- To fulfill its statutory, fiduciary and regulatory responsibilities.
- To ensure that the risk awareness culture.
- To review issues raised by Internal Audit
- The Board shall review the performance of the risk management committee annually.

INVESTMENT COMMITTEE

- The primary role of the Investment Committee is to approve the fund's investment objectives. In doing so, the committee must develop an investment plan according to the financial needs and circumstances of the corporation.
- The Investment Committee functions best when they have a trusted working relationship with the CIO and staff.

RESPONSIBILITY OF INVESTMENT COMMITTEE

- To set investment policies
- Approve the allocation of strategic assets
- Approve amendments to investment plans
- Evaluate investment performance

SHAREHOLDERS GRIEVANCE COMMITTEE

- In terms of Clause 49-IV(G)(iii) of the Listing Agreement, a board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non receipt of balance sheet, non receipt of declared dividends etc. This committee shall be designated as "Shareholders/ Investors Grievance Committee". [15]

PURPOSE

- Efficient transfer of shares; including review of cases for refusal of transfer transmission of shares and debentures;
- Redressal of shareholder and investor complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc.;
- Issue of duplicate / split / consolidated share certificates;
- Allotment and listing of shares;
- Review of cases for refusal of transfer / transmission of shares and debentures;
- Reference to statutory and regulatory authorities regarding investor grievances; and to otherwise ensure proper and timely attendance and redressal of investor queries and grievances."
- The Shareholders/ Investor Grievances Committee looks into redressal of shareholder and investor complaints, issue of Duplicate/ Consolidated Share Certificates, Allotment and Listing of shares and review of cases for refusal of Transfer / Transmission of shares and debentures and reference to Statutory and Regulatory Authorities. The scope and functions of the Shareholders/ Investor Grievances Committee are as per Clause 49 of the Listing Agreement.

INVESTOR RELATION COMMITTEE

- This committee is to monitor and assist the strategic direction and overall status of the company
- The purpose is to review and approve engagement of third party
- Review investor presentations
- Provide guidance on all material investor relations.

- https://ebrary.net/10600/business_finance/compliance_committee
- <https://taxguru.in/sebi/risk-management-committee-role-responsibility.html>
- <https://www.lawctopus.com/academike/boa-rd-committees-importance/>