

## Request for comments: Update to the scoring criteria of the IFC-BSE-IiAS Indian Corporate Governance Scorecard

*IiAS proposes to update the IFC-BSE-IiAS Indian Corporate Governance Scorecard in light of the changes in regulations and practices in India. These changes are based on the feedback of companies and investors, and our own experiences of scoring listed Indian companies. We believe while these changes are meaningful, these do not materially change the scoring, but help sharpen the analysis and thereby create stronger differentiation across companies.*



The IFC-BSE-IiAS Indian Corporate Governance Scorecard (Indian CG Scorecard) was introduced in December 2016. It is based on the G20/OECD Principles of Corporate Governance. We have published five editions of the Indian Corporate Governance Scores, which used the framework to evaluate governance practices of companies underlying the most important market indices in India.

Since the original report, Indian corporates have strengthened their governance practices. For instance, the median scores of companies comprising the S&P BSE SENSEX, increased to 63 in our latest report, from 60 in the first edition of our report. Further, the score at the top end of the range also increased to 80 from 75 in the first edition. Similar trends were seen for other broader indices as well.

We were happy to note that several best practice requirements, covered by the scoring methodology, are now part of regulations. From 2020, regulations compelled the top 500 companies to begin disclosing director-wise board skills. This gives investors a sense of skill gaps on the board. This year we saw all companies conduct their meetings virtually and links shared on the website – something that was viewed as a best practice. Another regulatory change that will kick in from 1 April 2022 is the separation of CEO and Chairperson roles, leading to better demarcation of responsibilities. That the Chairperson and the CEO cannot be related to each other, while forcing promoter families to make early choices, is likely to enhance the board oversight on management.

Corporate India has embraced the framework and made great strides towards achieving better governance and increased transparency. It is time to set the bar higher. Given this, and that five years have passed since we introduced the scorecard, we have revisited the scorecard methodology and update it to reflect the changing governance environment.

We have summarized the proposed changes to the scorecard below. Following the revisions, the scorecard will carry 66 questions instead of the earlier 70. While some questions have been removed, primarily because of regulations making certain changes mandatory or high adoption levels, we have added and updated several as well. The list below captures all such changes. In addition to the questions below, several have been simplified for understanding or have had their response keys updated for better clarity and general tightening.

## Category I: Rights and equitable treatment of shareholders

**Director permanency:** Shareholders must get a chance to evaluate the performance of every director periodically and approve/disapprove their reappointment on the board. Several companies have non-rotational board seats: such provisions, typically embedded in the Articles of Association (AoA), may allow certain directors to continue on boards for as long as they desire. We have added this question to test if any directors have permanent board seats to differentiate between companies.

Status	Question	Score: 0	Score: 1	Score: 2
<b>ADDED</b>	Does the board have directors with permanent board seats?	The board comprises directors that do not seek periodic shareholder approval for their reappointment / directorship	The board comprises directors that do not seek periodic shareholder approval for their reappointment, but these are representatives of lenders (for companies in financial distress)	All directors are required to be re-elected at regular intervals

**Director and auditor attendance at AGM:** The scorecard included separate questions on attendance of directors and that of auditors at AGMs. The questions have now been merged to simplify the scorecard structure.

Status	Question	Score: 0	Score: 1	Score: 2
<b>MERGED/ MODIFIED</b>	Did all board members and the auditors attend the previous AGM?	Either the Chairperson of the board, or the CEO, or the Chairperson of Audit Committee or the auditors did not attend the AGM	All board members did not attend the AGM: however, the Chairperson of the board, the CEO, the Chairperson of the Audit Committee and the auditors attended	The entire board and auditors attended

**Transactions prejudicial to minority shareholders:** The scorecard included an optional question on related party transactions which could be perceived to be prejudicial to minority shareholders. Earlier, the scoring key was narrowly defined as only those transactions that are defined as related party transactions and those that sought shareholder approval. However, companies have found ingenious ways out of the related party transaction regulation to undertake transactions that can be construed as opportunistic or prejudicial to the larger interest of non-controlling shareholders. Therefore, we have expanded the scope of the question.

Status	Question	Score: 0	Score: 1	Score: 2
<b>MODIFIED</b>	Has the company transacted in a manner prejudicial to the interests of minority shareholders in the past three years?	Yes, the company has entered into transactions or taken actions which could be prejudicial to the interests of minority shareholders	-	No, the company did not undertake any transactions or taken actions which could be prejudicial to the interests of minority shareholders

In a warrants issue, 25% of the conversion price is paid up front, with an option to convert the warrants into equity shares anytime during the next 18 months. The remaining 75% is paid upon conversion. If the warrants are allowed to lapse, the initial upfront amount of 25% is forfeited by the warrant holders. We continue to argue that preferential issue of warrants allow promoters to ride the stock price and therefore is prejudicial to the interest of the residual shareholders. However, we have decided to remove the related question (below), because it only addresses the narrow issue of warrants. Because we have modified the earlier question on related party transactions to include, more broadly, transactions that are prejudicial in nature (above), we will include our assessment of warrants issues within that question.

Status	Question	Score: 0	Score: 1	Score: 2
<b>REMOVED</b>	Were any preferential warrants issued to the controlling shareholders in the past one year?	Yes, preferential warrants were issued	Yes, but preferential warrants were issued pursuant to a debt restructuring scheme	No preferential warrants were issued

**AGM engagement:** The scorecard questions relating to AGMs dealt with evidence of time being allotted in the AGM for shareholder discussions as well as participation mechanisms for attending AGMs. Given the shift to virtual AGMs in 2020, companies were required to rethink and be more transparent about their AGM practices. Therefore, more companies had published webcasts and transcripts for AGMs, as compared to previous years. Any evidence of time being allocated to shareholder queries was clearly laid out in the webcasts/transcripts. The virtual AGM format has been extended till 31 December 2021: we expect companies will move to a hybrid format for AGMs (physical + virtual) in the future, which will allow more shareholders to participate. In India, shareholder participation in AGMs has been relatively low – in IiAS’ December 2020 paper titled [‘Attending AGM’s from home’](#), our research showed that less than 1% of shareholders of S&P BSE 100 companies had attended AGMs during the three year period of 2018-2020.

Therefore, given the limited relevance of these questions to the scorecard going forward, they have been removed.

Status	Question	Score: 0	Score: 1	Score: 2
<b>REMOVED</b>	Did the previous AGM allow sufficient time for shareholder engagement?	There is no evidence of time provided	There was evidence of time being allocated for shareholder engagement in the minutes or the AGM webcast	There was evidence of time being allocated for shareholder engagement in the minutes or the AGM webcast and the details of shareholder engagement/queries were provided
<b>REMOVED</b>	Was shareholder participation facilitated for all shareholders at the previous AGM in the past one year?	No evidence of facilities/opportunities being provided	Yes, shareholders could submit questions in writing before the meeting	Yes, there is evidence of facilities being provided for shareholder participation through video-conferencing or tele-conferencing

## Category II: Role of stakeholders

**Stakeholder engagement:** The current scorecard measured a company's commitment towards developing stakeholder relationships through the composition and meeting frequency of the Stakeholders' Relationship Committee (SRC). Companies are largely compliant with this dictum: therefore, the focus needs to change on how transparently and frequently the company engages with its stakeholders. To this extent, we have modified the scoring key to assess for engagement between stakeholders and the SRC.

Status	Question	Score: 0	Score: 1	Score: 2
<b>MODIFIED</b>	Is the company committed towards developing stakeholder relationships?	The company does not hold investor calls on a regular basis; or there is no evidence to suggest that the SRC meets regularly and engages with stakeholders	Yes, the company regularly holds investor calls, but the transcript of such calls is not published publicly by the company	Yes, the company regularly holds investor calls and the transcripts of such calls are disclosed on the company website; or the SRC charter specifically requires the committee to engage with stakeholders on a regular basis.

**Employee welfare and safety:** Given the increased relevance of a robust prevention of sexual harassment policy in light of a workplace that is getting diverse, a question addressing this has been added to the scorecard. Further, a question addressing the health and safety of employees in terms of disclosure of accidents and articulated health and safety policies has been added. The earlier version of the scorecard also addressed these issues, however the questions have now been separately carried, given the relevance of each of these issues.

Status	Question	Score: 0	Score: 1	Score: 2
<b>MODIFIED</b>	Does the company have publicly disclosed policies and/or mechanisms to address the health, safety, and welfare of employees?	The policies are not publicly disclosed and the company has not provided information on the number of employee accidents or there have been labour fatalities on account of accidents in the workplace	Either the policies are publicly disclosed or the company has provided information on the number of employee accidents	The company has provided information on the number of employee accidents and has publicly disclosed its health and safety policies
<b>MODIFIED</b>	Does the company have publicly disclosed policies and/or mechanisms to prevent sexual harassment at workplace?	The policy has not been publicly disclosed	The policy is publicly disclosed but the company has not provided information on the number of sexual harassment incidents	The policy is publicly disclosed and provided information on the number of sexual harassment incidents

## Category III: Disclosures and Transparency

**Quarterly financial reporting:** While the scorecard tested for quarterly financial reporting on a consolidated basis, this has now been embedded into regulation. Therefore, the question has been removed.

Status	Question	Score: 0	Score: 1	Score: 2
<b>REMOVED</b>	Is the company transparent in disclosing financial performance on a quarterly basis in the past one year?	The company has not disclosed financial performance for all the past four quarters	The company has not disclosed either standalone or consolidated financial performance in any one of the past four quarters	The company has disclosed both standalone and consolidated quarterly financial performance for each of the past four quarters

**Non-financial information:** The inclusion of non-financial information in company documents helps assess qualitative aspects as well as ESG related performance. The scorecard currently covers broad areas of non-financial information disclosure. The question has been made robust and now tests for a publicly disclosed sustainability report/integrated report, which articulates such non-financial information in a structured, meaningful manner. Non-financial information includes:

- Industry growth and performance
- ESG related performance
- Business model strengths and weaknesses
- Business strategy
- Capacity and capacity utilization

Status	Question	Score: 0	Score: 1	Score: 2
<b>MODIFIED</b>	Is the company transparent in disclosing non-financial information?	The company has not disclosed meaningful information on non-financial parameters	The company has not published an integrated report/sustainability report but information on some non-financial parameters has been disclosed	The company has published an integrated report/ sustainability report

**Dividend policy:** Publishing a dividend distribution policy is mandatory for the Top 1000 companies under SEBI's LODR. The scorecard currently tests for the existence of a dividend distribution policy: further for the policy to be meaningful, it tested for articulation of a target dividend payout ratio. The scorecard also expected the policy to be approved by shareholders. However, given the lack of regulation around shareholder approval, the requirement has been dropped. Instead, the question now checks for a target payout ratio and tests if there has been any deviation from the stated payout ratio for the past three years.

Status	Question	Score: 0	Score: 1	Score: 2
<b>MODIFIED</b>	Has the company articulated a dividend policy for its shareholders?	Dividend policy does not have a target payout ratio	The policy is publicly available and specifies a target payout ratio, but there have been deviations from the policy in the past three years, without any clear rationale	The policy is publicly available, specifies a target payout ratio and there have not been any deviations from the policy in the past three years

**Identifying Senior Executives and Independent Directors:** The scorecard, through another question, tests for disclosures on the roles and experience of senior executives and the board. Therefore, we are removing the duplication to simplify the scorecard.

Status	Question	Score: 0	Score: 1	Score: 2
<b>REMOVED</b>	Has the company identified its senior executives and their responsibilities?	The senior executives have not been identified	The senior executives have been identified, but their roles have not been clearly stated	The senior executives have been identified and their roles have been clearly stated
<b>REMOVED</b>	Has the company clearly identified its independent directors in the annual report and on its website?	No, the company has not made any distinction of independent directors in the annual report	-	Yes, independent directors are clearly identified and disclosed in the annual report

**Regulatory action and ethical violations:** While a strong governance framework is essential, a track record of regulatory violations may indicate a failure of the governance structures built by the company. We have added a question to check for compliance with regulations. The existing question to test for violation of ethical/behavioural norms while remaining within the confines of regulation has been retained, in addition to this question.

Status	Question	Score: 0	Score: 1	Score: 2
<b>ADDED</b>	Has the company, directors or its key managerial personnel (KMP) fined or penalized by regulatory bodies, stock exchanges in the past 12 months?	There are instances where company, directors or its key managerial personnel (KMP) fined or penalized by regulatory bodies, stock exchanges in the past 12 months or currently ongoing	-	There is no evidence of instances company, directors or its key managerial personnel (KMP) fined or penalized by regulatory bodies, stock exchanges in the past 12 months

## Category IV: Responsibilities of the board

**Gender diversity:** The question relating to women directors on the board has been modified: companies must have at least one woman independent director (not just a non-promoter woman director) on the board, to score highest points on this question. Further, another question relating to women participation in the workforce has been added to test if the merits of gender diversity are being recognized and implemented in the workforce.

Status	Question	Score: 0	Score: 1	Score: 2
<b>MODIFIED</b>	Does the board have gender diversity?	None of the women directors are independent		At least one woman director is independent
<b>ADDED</b>	Is there adequate women representation in the workforce?	<10%; or there is no disclosure on this aspect	>10% and <30%	>30%

**Executive remuneration:** Given the increasing focus on executive remuneration and the stakeholders' expectations of pay closely linked to company performance, we have updated the question on executive remuneration to push for higher disclosures on performance metrics that determine executive remuneration. The earlier question focused on the existence of variable pay mechanisms including both short-term and long-term components. Similarly, the question on stock options is modified to check for discounted stock options as well as performance-based vesting on stock options granted to employees.

Status	Question	Score: 0	Score: 1	Score: 2
<b>MODIFIED</b>	Has the Nomination and Remuneration Committee defined performance metrics for executive remuneration?	No, the performance metrics have not been defined	Yes, and the performance metrics have been defined but do not include any ESG related performance targets	Yes, and the performance metrics have been defined and include ESG related performance targets
<b>MODIFIED</b>	If the company has a stock option scheme, is the exercise price of the stock options fixed at a discount to market price?	Only options granted to board members were discounted, or the stock options were granted to senior leadership on more favourable terms than the rest of the employee pool	Discount given on stock options to all employees, but vesting was either fully or partly tenure based	The stock options were exercised at market price or, if these were excisable at a discount to market price, then vesting was based on the accomplishment of pre-disclosed performance targets

**Succession Planning:** The scorecard included two questions on succession planning: the first dealt with the existence of a succession plan while the other tested for disclosures on succession planning. The questions have now been merged to simplify the scorecard structure.

Status	Question	Score: 0	Score: 1	Score: 2
<b>MERGED/ MODIFIED</b>	Does the company have a succession plan for its directors and senior leadership?	There is no disclosure of succession plan for directors and senior leadership	There is a succession plan for directors and senior leadership	There is a succession plan for both directors and senior leadership and a detailed framework for succession planning is disclosed, or the company has demonstrated smooth leadership succession in the past three years.

As a result of these changes, the number of questions will now be at 66 against the 70 earlier. While the category wise weights will remain the same, the number of questions change as given below.

No.	Category	Previous number of questions	Previous max attainable score	Current number of questions	Current max attainable score	Category weight in % (Unchanged)
1	Rights and equitable treatment of shareholders	19	38	16	32	30
2	Role of stakeholders	9	18	10	20	10
3	Disclosures and transparency	23	46	21	42	30
4	Responsibilities of the board	19	38	19	38	30
<b>Overall</b>		<b>70</b>		<b>66</b>		<b>100</b>

The entire list of questions, revised for the proposed changes, is given in the Annexure. The current list of questions is available in our 2016 Handbook, which is available on our website: <https://www.iiasadvisory.com/governance-Scorecard>

We believe these changes will sharpen the analysis and create meaningful differences as we assess companies on their governance practices. We will be happy to receive comments from companies, investors, and all other stakeholders of corporate India on these changes. We encourage you to write to us with your thoughts and perspectives at [solutions@iias.in](mailto:solutions@iias.in) on or before 31 December 2021.

## ANNEXURE: Revised Indian Corporate Governance Scorecard framework

### Category I: Rights and equitable treatment of shareholders

#	Parameters
1	Has the company taken steps to ensure that the basic rights of shareholders are clear and unequivocal?
2	Can a minority shareholder, with less than 10% stake, propose an agenda item in a shareholder meeting?
3	Was there any evidence of combining multiple matters or issues in a single resolution?
4	Does the board have directors with permanent board seats?
5	Did the company provide proxy and e-voting facility for all shareholder meetings in the past one year?
6	Did all board members and the auditors attend the previous AGM?
7	Within how many months of the fiscal year end was the last AGM held?
8	Do the charter documents of the company give additional rights to certain shareholders?
9	Does the company have a policy requiring all related party transactions (RPTs) to be dealt only by independent non-conflicted board members?
10	Does the company have in place a system, including policies and procedures, to facilitate disclosures of conflicts of interest by stakeholders?
11	Has the company transacted in a manner prejudicial to the interests of minority shareholders in the past three years?
12	Does the company pay out disproportionately high royalty to its group entities?
13	In the past, has the company (or its subsidiaries) provided financial assistance to promoter entities which had to be written off or unlikely to be recovered?
14	Has the company been transparent while undertaking any M&A, restructuring, or slump sale?
15	Does the company have a policy to publicly disclose the reasons for pledging of shares by the controlling shareholders?
16	Is there evidence of structures or mechanisms that have the potential to violate minority shareholder rights?

### Category II: Role of stakeholders

#	Parameters
17	Is the company committed towards developing stakeholder relationships?
18	Does the company have publicly disclosed policies and/or mechanisms to address the health, safety, and welfare of employees?
19	Does the company have publicly disclosed policies and/or mechanisms to prevent sexual harassment at workplace?
20	Does the company have in place policies and practices which explain its supplier/contractor selection and management processes?
21	Has the company demonstrated commitment to protect the rights of its lenders, creditors, and suppliers?
22	Does the company demonstrate a commitment to strong ethical practices and is clearly anti-corruption and anti-bribery?
23	Does the company demonstrate its commitment to being a good corporate citizen?
24	Does the company have processes in place to implement and measure the efficacy of its CSR programs?
25	Does the company have policies and processes in place to handle investor grievances?
26	Does the company have an effective whistle-blower mechanism for stakeholders to report complaints and suspected or illegal activities?

## Category III: Disclosures and transparency

#	Parameters
27	Does the company have a policy for determining and disclosing material information?
28	Have there been any concerns on the financial statements in the past three years?
29	Is the company transparent in disclosing segmental information?
30	Is the company transparent in disclosing non-financial information?
31	Does the company provide comprehensive disclosures on its foreseeable risks?
32	Has the company developed and disclosed a comprehensive related party transaction (RPT) policy?
33	Did the company provide timely, accessible and comprehensive information for all shareholder meetings in the past one year?
34	Are the detailed minutes or transcripts of the previous AGM publicly available?
35	Did the company disclose voting results for each shareholder category for all resolutions proposed in the past one year?
36	Is the company transparent in disclosing its shareholding pattern?
37	Is the shareholding of individual board members and key managerial personnel (KMP) disclosed in the latest annual report?
38	Has the company articulated a dividend policy for its shareholders?
39	Is the information on the company website comprehensive and accessible?
40	Does the company have a dedicated investor relations team/person whose contact details are publicly available?
41	Does the company provide any information about the independence, competence and experience of the external auditor?
42	Has the company periodically rotated its auditors (firm and partner)?
43	Does the latest annual report contain a statement confirming the company's compliance with the regulatory requirements on corporate governance?
44	Has the company disclosed the experience of each board member and senior executives?
45	Has the company, directors or its key managerial personnel (KMP) fined or penalized by regulatory bodies, stock exchanges in the past 12 months?
46	Does the company fully disclose the process and criteria used for appointing new directors?
47	Does the company disclose details on its training, development and orientation programs for directors?

## Category IV: Responsibilities of the board

#	Parameters
48	Are all directors fully engaged in company matters and committed to corporate governance?
49	Does the board meet sufficiently to exercise due diligence?
50	Is there separation of roles between the Chairperson and the CEO?
51	Does the board have sufficient skills, competence and expertise?
52	Does the board have gender diversity?
53	Is there adequate women representation in the workforce?
54	Does the company have adequate independent representation on the board?
55	Do the board committees have adequate independent representation?
56	Is the audit committee effective in its composition and its meeting frequency?
57	Does the company have a strong and robust internal audit framework?
58	Were all resolutions proposed by the board to shareholders in the past one year accepted?
59	Is there evidence to show that the company, directors or its key managerial personnel (KMP) have violated normally expected ethical/ behavioral norms?
60	Has the Nomination and Remuneration Committee defined performance metrics for executive remuneration?
61	Has executive director(s) pay been aligned to company performance in the last three years?
62	If the company has a stock option scheme, is the exercise price of the stock options fixed at a discount to market price?
63	Is the CEO compensation commensurate with the company's size and performance?
64	Does the company have a succession plan for its directors and senior leadership?
65	Is the board evaluation policy and process in place and effective?
66	Are board committees evaluated separately?

**Note:** Questions highlighted in gray may not be applicable to all companies

## **DISCLAIMER**

The IFC-BSE-IiAS Indian Corporate Governance Scorecard (Indian CG Scorecard/Framework) was introduced in December 2016. It is based on the G20/OECD Principles of Corporate Governance. IiAS has published five editions of the Indian Corporate Governance Scores, which used the aforesaid framework to evaluate governance practices of companies underlying the most important market indices in India. This document affords market participants viz, companies and investors an opportunity to comment on the amendments proposed to the framework. The comments received could be made available for website viewing. The proposed amendments are informative and should not be considered conclusive. The framework has been derived largely from publicly available data, but we do not represent that the information contained herein is accurate or complete and it should not be relied on as such. IiAS shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this document. This document is provided for assistance only and is not intended to be and must not be taken as the basis for any voting/investment decision or construed as legal advice. The user assumes the entire risk of any use made of this information and is responsible for complying with all local laws, rules, regulations, and other statutory or regulatory requirements. The information provided in this document is as of the date of release and there can be no assurance that future results or events will be consistent with this information. The information provided herein is subject to change without any prior notice. IiAS reserves the right to make modifications and alterations to this document as may be required from time to time. However, IiAS is under no obligation to update or keep the information current. Neither IiAS nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this document. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The framework, including all layout, design, original artwork, concepts and other Intellectual Properties, remain the sole property and copyright of IiAS and may not be used in any form or for any purpose whatsoever by any party without the express written permission of IiAS.