



TATA CONSULTING ENGINEERS LIMITED

Board and Committee Governance Charter/s



Governance Guidelines

Guidelines for Tata companies on Board Effectiveness

January 2015

1. Preamble

A deep belief in values, ethical conduct of business, commitment to social responsibility, respect for all stakeholders and sound corporate governance practices have been the hallmark of the way the Tata companies do business. The stakeholders expect the Tata companies' governance principles to be consistent and of high standards.

This Governance Guidelines ("guidelines") document is based on current and emerging best practices from both within and outside Tata companies. These guidelines have been prepared keeping in view the provisions of the Companies Act, 2013 ("Act") and the corporate governance requirements as prescribed by Securities and Exchange Board of India ("SEBI") under Clause 49 of the Equity Listing Agreement ("Clause 49"). In case there is any change in the law or the requirements of the Equity Listing Agreement as prescribed by SEBI, the company will have to comply with the applicable provisions of the Act and Clause 49 as amended from time to time. These guidelines should be read in conjunction with the Act, Clause 49, RBI circulars, IRDA guidelines, SEBI (Prohibition of Insider Trading) Regulations, 1992 along with the Tata Code of Conduct for Prevention of Insider Trading and Code of Corporate Disclosure Practices ("Insider Trading Regulations and Code") and the Articles of Association of the company ("Articles").

This document aims to comprehensively revise and update all previous board related guidelines relating to Tata companies. All Tata companies are requested to place these guidelines before the respective Board of directors ("Board") for consideration and adoption as a whole.

Though these guidelines are written from an Indian perspective, many of these recommendations could be adopted in other countries where the company operates, subject to compliance with local laws.

For the purpose of these guidelines, a "Tata company" shall mean Tata Sons Limited and every company of which Tata Sons Limited or Tata Industries Limited or any company promoted by Tata Sons Limited or Tata Industries Limited is the promoter or in which such companies whether singly or collectively hold directly or indirectly 26% or more of the paid-up equity share capital or in which the shareholding of such companies represents the largest Indian holding apart from holdings of financial institutions/ mutual funds or a company which is permitted by Tata Sons to use the Tata brand/ name.

These guidelines shall take effect from the date on which they are adopted by the Board of the Tata company ("Effective Date").

2. Composition and Role of the Board

2.1. Role of the Board

The Board is collectively responsible for the success of the company and shall exercise superintendence, control and direction of the company's affairs towards long term value creation for all stakeholders. The Board along with its committees provides supervision and direction to and oversees the performance of the management.

2.1.1. Public companies covered under the Act

As per the Act (section 166 and Schedule IV), the responsibilities of the Board are as follows:

- *“promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment;*
- *deliberate especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct;*
- *satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible;*
- *safeguard the interests of all stakeholders, particularly the minority shareholders;*
- *balance the conflicting interest of the stakeholders.”*

Companies whose equity is not listed (under Clause 49) are also encouraged to follow the responsibilities of the Board as highlighted in Clause 49 (and provided in 2.1.2 below).

2.1.2. Public companies whose equity is listed (as covered by Clause 49 and the Act)

The responsibilities of the Board as per Clause 49 are as follows:

- **“Disclosure of Information:**
 - a) *Members of the Board and key executives should be required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the company.*
 - b) *The Board and top management should conduct themselves so as to meet the expectations of operational transparency to stakeholders while at the same time maintaining confidentiality of information in order to foster a culture for good decision-making.*

- **Key Functions of the Board:**
 - a) *Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestments.*
 - b) *Monitoring the effectiveness of the company's governance practices and making changes as needed.*
 - c) *Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.*
 - d) *Aligning key executive and board remuneration with the longer term interests of the company and its shareholders.*
 - e) *Ensuring a transparent board nomination process with the diversity of thought, experience, knowledge, perspective and gender in the Board.*
 - f) *Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.*
 - g) *Ensuring the integrity of the company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.*
 - h) *Overseeing the process of disclosure and communications.*
 - i) *Monitoring and reviewing Board Evaluation framework.*

- **Other responsibilities:**
 - a) *The Board should provide the strategic guidance to the company, ensure effective monitoring of the management and should be accountable to the company and the shareholders.*
 - b) *The Board should set a corporate culture and the values by which executives throughout a group will behave.*
 - c) *Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.*
 - d) *The Board should encourage continuing directors training to ensure that the Board members are kept up to date.*
 - e) *Where Board decisions may affect different shareholder groups differently, the Board should treat all shareholders fairly.*
 - f) *The Board should apply high ethical standards. It should take into account the interests of stakeholders.*
 - g) *The Board should be able to exercise objective independent judgment on corporate affairs.*
 - h) *Boards should consider assigning a sufficient number of non-executive Board members capable of exercising independent judgment to tasks where there is a potential for conflict of interest.*
 - i) *The Board should ensure that, while rightly encouraging positive thinking, these do not result in over-optimism that either leads to*

significant risks not being recognised or exposes the company to excessive risk.

- j) The Board should have ability to 'step back' to assist executive management by challenging the assumptions underlying: strategy, strategic initiatives (such as acquisitions), risk appetite, exposures and the key areas of the company's focus.*
- k) When committees of the board are established, their mandate, composition and working procedures should be well defined and disclosed by the board.*
- l) Board members should be able to commit themselves effectively to their responsibilities.*
- m) In order to fulfil their responsibilities, board members should have access to accurate, relevant and timely information.*
- n) The Board and senior management should facilitate the Independent Directors to perform their role effectively as a Board member and also a member of a committee."*

2.1.3. Additional responsibilities for the Board of a Tata company

In addition to the above responsibilities prescribed by the Act and Clause 49, the core objectives of the Board of a Tata company shall include:

- Review and approval of the Annual Operating Plan (including the strategy and resource plan) of the company.
- Oversee maintenance of high standards of Tata values and ethical conduct of business.
- Review TBEM (Tata Business Excellence Model) findings and monitor the action plan.
- Protect and enhance the company and Tata brand, where companies are using the same.

2.2. Role of the Chairman

The Chairman is responsible for Board leadership and creating conditions for effectiveness of the overall Board which includes inter-alia:

- Setting the strategic agenda of the Board (in conjunction with the company's management) with focus on long term value creation for all stakeholders.
- Encouraging active engagement by all the members of the Board and promoting effective relationships and open communication.
- Communicating effectively with all stakeholders and enabling meaningful relationships, as may be required.
- Motivating and providing guidance to the managing director ("MD")/ chief executive officer ("CEO").

2.3. Role of the Directors

Directors of all Tata companies are expected to comply with duties as provided in the Act. For reference, the duties of the directors, as provided by the Act, are as follows:

- 1) *“Act in accordance with the articles of the company.*
- 2) *Act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment.*
- 3) *Exercise duties with due and reasonable care, skill and diligence and exercise independent judgment.*
- 4) *Not be involved in a situation in which he may have a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the company.*
- 5) *Not achieve or attempt to achieve any undue gain or advantage either to himself or to his relatives, partners, or associates.*
- 6) *Not assign his office.”*

Additionally, the directors on the Board of a Tata company are also expected to demonstrate high standards of ethical behavior, strong interpersonal and communication skills and soundness of judgment.

2.4. Size of the Board

As prescribed under the Act, the Board shall comprise up to a maximum of fifteen directors (including the Chairman and the Financial Institutions' nominees). However, the Board may decide to have lesser number of directors keeping in view the size and complexity of the business of the company.

2.5. Board Composition

2.5.1. Public companies whose equity is listed (as covered by Clause 49 and the Act)

- Number of independent directors (“ID”):
 - In case of public companies, which have a promoter director as Chairman, at least half of the Board should comprise IDs.
 - In case of other public companies, at least one-third of the Board should comprise IDs.
- The balance of the Board may be equally split between non-independent non-executive directors (“NED”) and executive directors (“ED”), including the MD.
- The non-independent NEDs may consist of representatives from Tata companies (excluding the specific company and its’ subsidiaries/ associates/ joint ventures).

- The overall Board should comprise at least one woman director.
- Offices of the Chairman and the CEO/ MD should be separate, except under exceptional circumstances.
- At least one ID on the Board of such a company should be a director on the Board of its' material unlisted subsidiary company¹.
- The Board of a material subsidiary company¹ is advised to have at least one non-independent NED who is not an employee of its holding/ subsidiary/ fellow subsidiary company.

2.5.2. Other public listed companies (as covered by the Act)

- In public listed companies covered by the Act but not by Clause 49, at least one-third of the Board should comprise IDs.
- The balance of the Board may be equally split between non-independent NEDs and EDs, including the MD.
- The non-independent NEDs may consist of representatives from Tata companies (excluding the specific company and its' subsidiaries/ associates/ joint ventures).
- The overall Board should comprise at least one woman director.
- Offices of the Chairman and the CEO/ MD should be separate, except under exceptional circumstances.
- The Board of a material subsidiary company¹ is advised to have at least one non-independent NED who is not an employee of its holding/ subsidiary/ fellow subsidiary company.

2.5.3. Public unlisted companies (as covered by the Act)

- Public unlisted companies that meet and exceed certain thresholds on paid-up share capital, turnover and aggregate of outstanding loans, debentures and deposits² must comprise *“at least two independent directors provided that in case such a company is required to appoint a higher number of independent directors due to composition of its audit committee, such higher number of independent directors shall be applicable to it.”*

¹ In this document, the term “material subsidiary” shall have the same meaning assigned to this phrase under the applicable law. However, if the law does not prescribe any definition, then, a subsidiary shall be considered as material if the investment of the company in the subsidiary exceeds twenty per cent of its consolidated net worth as per the audited balance sheet of the previous financial year or if the subsidiary has generated twenty per cent of the consolidated income of the company during the previous financial year.

² Thresholds for appointment of IDs in public unlisted companies as prescribed Companies (Appointment and Qualification of Directors) Rules, 2014 read in conjunction with the Act are as follows:

- (i) Paid up share capital of ten crore rupees; or
- (ii) Turnover of one hundred crore rupees; or
- (iii) Aggregate of outstanding loans, debentures and deposits, of fifty crore rupees

- The balance of the Board may be equally split between non-independent NEDs and EDs, including the MD. This is however subject to not more than one-third of the Board comprising EDs including the MD.
- The non-independent NEDs may consist of representatives from Tata companies (excluding the specific company and its' subsidiaries/ associates/ joint ventures).
- In public unlisted companies that meet and exceed certain thresholds on paid-up share capital and turnover³, the overall Board should comprise at least one woman director.
- Offices of the Chairman and the CEO/ MD should be separate, except under exceptional circumstances.
- The Board of a material subsidiary company¹ is advised to have at least one non-independent NED who is not an employee of its holding/ subsidiary/ fellow subsidiary company.

2.5.4. Additional guidelines for a Tata company

- Boards will ensure that a transparent board nomination process is in place that encourages diversity of thought, experience, knowledge, perspective, age and gender.
- It is expected that boards have an appropriate blend of functional and industry expertise.
- The NRC of the parent/ holding company shall be informed prior to any change in the composition of Board of the subsidiaries, associates and joint ventures (this should also include subsidiaries, associates and joint ventures of such subsidiaries, associates and joint ventures). Further, on an annual basis every holding company will need to be provided a report of composition of the Board (along with any changes in the composition) of its subsidiaries, associates and joint ventures (this should also include subsidiaries, associates and joint ventures of such subsidiaries, associates and joint ventures) in a pre-determined format.
- The Board of the parent/ holding company (supported by the Nomination and Remuneration Committee) shall determine how the parent/ holding company will vote at the shareholder meeting for appointment of directors on the Board of material subsidiary companies¹.

2.6. Managing Director and Executive Director

- The MD and EDs provide leadership through their board positions, as well as for the business area or function for which they are directly responsible.

³ Thresholds for appointment of woman director in public unlisted companies as prescribed Companies (Appointment and Qualification of Directors) Rules, 2014 read in conjunction with the Act are as follows:

- (i) Paid-up share capital of one hundred crore rupees; or
- (ii) Turnover of three hundred crore rupees

- The MD and EDs are expected to exercise individual judgment on every issue in the overall interests of the company. They are also expected to demonstrate role model behavior on all aspects of Tata values, including living by the Tata Code of Conduct ("TCoC") in letter and spirit at all times.
- The MD and EDs are members of the Board by virtue of employment with a Tata company. The membership of the Board would cease in the event of superannuation, resignation or cessation of services.
- While recommending appointment of an ED, it is expected that the Nomination and Remuneration Committee ("NRC") consider a balance between functional and business unit representation.

2.7. Non-Executive Director

- NEDs bring an external view and judgment on the issues of strategy, risk, performance, capital and other resources, key appointments and business conduct. They should therefore be provided with the freedom to constructively challenge strategies and policies proposed by management. They should also be at the liberty to use all channels of communication, formal as well as informal, to put across their point of view to the management.
- Retired MDs/ EDs/ employees will not be invited to join the Board of the same company as NEDs. However, such a person may continue as NED of its subsidiaries/joint ventures/associates/ fellow subsidiaries / other Tata companies. To enable this, the Boards of respective companies may specifically, through a resolution, approve continuance of the director on the Board.
- Current and ex-employees of a Tata company may be considered as independent only if he/ she has or had no pecuniary relationship with any Tata company (due to employment/ receipt of monthly pension by way of Special Retirement Benefits/ holding consultant or advisor positions) during the two immediately preceding financial years or during the current financial year.
- All non-independent NEDs shall retire by rotation as required by law but shall be entitled to be reappointed if qualified under law. They should be selected through a formal process by the NRC of the company, and confirmed by the Board.

2.8. Independent Director

- A director will be considered as an "independent director" if the person meets with the criteria for 'independent director' as laid down in the Act and Clause 49 (as may be applicable).
- The definition of Independence as provided in the Act and Clause 49 is as follows:

"An independent director in relation to a company, means a director other than a managing director or a whole-time director or a nominee director,—

(a) who, in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience;

(b) (i) who is or was not a promoter of the company or its holding, subsidiary or associate company;

(ii) who is not related to promoters or directors in the company, its holding, subsidiary or associate company;

(c) who has or had no pecuniary relationship with the company, its holding subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;

(d) none of whose relatives has or had pecuniary relationship or transaction with the company, its holding, subsidiary or associate company, or their promoters, or directors, amounting to two per cent. or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;

(e) who, neither himself nor any of his relatives—

(i) holds or has held the position of a key managerial personnel or is or has been employee of the company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;

(ii) is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of—

(A) a firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or

(B) any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to ten per cent. or more of the gross turnover of such firm;

(iii) holds together with his relatives two per cent. or more of the total voting power of the company; or

(iv) is a Chief Executive or director, by whatever name called, of any nonprofit organisation that receives twenty-five per cent. or more of its receipts from the company, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent. or more of the total voting power of the company;

(v) is a material supplier, service provider or customer or a lessor or lessee of the company; (additional provision as per Clause 49);

(f) who is not less than 21 years of age (additional provision as per Clause 49)”

- While recommending appointment of an ID, it is expected that the NRC consider the manner in which the function and domain expertise of the individual contributes to the overall skill-domain mix of the Board. IDs ideally should be thought/ practice leaders in their respective functions/ domains.
- IDs are expected to abide by the 'Code for independent directors' as outlined in the Act. The Code specifies the guidelines of professional conduct, role and function and duties of independent directors.
- These are as follows:

“I. Guidelines of professional conduct: An independent director shall:

- 1) uphold ethical standards of integrity and probity;*
- 2) act objectively and constructively while exercising his duties;*
- 3) exercise his responsibilities in a bona fide manner in the interest of the company;*
- 4) devote sufficient time and attention to his professional obligations for informed and balanced decision making;*
- 5) not allow any extraneous considerations that will vitiate his exercise of objective independent judgment in the paramount interest of the company as a whole, while concurring in or dissenting from the collective judgment of the Board in its decision making;*
- 6) not abuse his position to the detriment of the company or its shareholders or for the purpose of gaining direct or indirect personal advantage or advantage for any associated person;*
- 7) refrain from any action that would lead to loss of his independence;*
- 8) where circumstances arise which make an independent director lose his independence, the independent director must immediately inform the Board accordingly;*
- 9) assist the company in implementing the best corporate governance practices.*

II. Role and functions: The independent directors shall:

- 1) help in bringing an independent judgment to bear on the Board's deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct;*
- 2) bring an objective view in the evaluation of the performance of board and management;*
- 3) scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance;*

- 4) *satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible;*
- 5) *safeguard the interests of all stakeholders, particularly the minority shareholders;*
- 6) *balance the conflicting interest of the stakeholders;*
- 7) *determine appropriate levels of remuneration of executive directors, key managerial personnel and senior management and have a prime role in appointing and where necessary recommend removal of executive directors, key managerial personnel and senior management;*
- 8) *moderate and arbitrate in the interest of the company as a whole, in situations of conflict between management and shareholder's interest.*

III. Duties: *The independent directors shall—*

- 1) *undertake appropriate induction and regularly update and refresh their skills, knowledge and familiarity with the company;*
- 2) *seek appropriate clarification or amplification of information and, where necessary, take and follow appropriate professional advice and opinion of outside experts at the expense of the company;*
- 3) *strive to attend all meetings of the Board of Directors and of the Board committees of which he is a member;*
- 4) *participate constructively and actively in the committees of the Board in which they are chairpersons or members;*
- 5) *strive to attend the general meetings of the company;*
- 6) *where they have concerns about the running of the company or a proposed action, ensure that these are addressed by the Board and, to the extent that they are not resolved, insist that their concerns are recorded in the minutes of the Board meeting;*
- 7) *keep themselves well informed about the company and the external environment in which it operates;*
- 8) *not to unfairly obstruct the functioning of an otherwise proper Board or committee of the Board;*
- 9) *pay sufficient attention and ensure that adequate deliberations are held before approving related party transactions and assure themselves that the same are in the interest of the company;*
- 10) *ascertain and ensure that the company has an adequate and functional vigil mechanism and to ensure that the interests of a person who uses such mechanism are not prejudicially affected on account of such use;*
- 11) *report concerns about unethical behaviour, actual or suspected fraud or violation of the company's code of conduct or ethics policy;*
- 12) *acting within his authority, assist in protecting the legitimate interests of the company, shareholders and its employees;*
- 13) *not disclose confidential information, including commercial secrets, technologies, advertising and sales promotion plans, unpublished price*

sensitive information, unless such disclosure is expressly approved by the Board or required by law.”

- In addition to the above, the ‘Code for independent directors’ in the Act, also covers aspects on *“Manner of appointment, Re-appointment, Resignation or Removal, Separate Meetings and Evaluation Mechanism”*.
- IDs should be provided with the freedom to constructively challenge strategies and policies proposed by management. They should also be at the liberty to use all channels of communication, formal as well as informal, to put across their point of view to the management
- IDs will not be liable for retirement by rotation.

2.9. Director Term, Tenure and Directorships

- Boards are encouraged to seek a balance between change and continuity.
- In case of non-independent NEDs, each term should not exceed a period of 3 years. They can be reappointed for subsequent terms until the applicable retirement age.
- In case of IDs, each term should not exceed a period of 5 years for public listed companies and 3 years for other companies or until the applicable retirement age, whichever is earlier, extendable for up to a total of two terms.
- Each term of a MD/ ED should not exceed a period of 5 years or until the applicable retirement age, whichever is earlier.
- MD and EDs shall hold office up to the age of 65 years, or earlier, as determined by the Board of the company.
- Employees of a Tata company, should post-employment immediately resign from the Boards of all Tata companies where they are functioning as NEDs. The Boards of respective companies may specifically, through a resolution, approve continuance of the director on the Board.
- The retirement age for Non-Independent NEDs would be 70 years.
- The retirement age for IDs would be 75 years, unless a lower retirement age is specified under the laws applicable to the company.

2.10. Committees of the Board

- It is recommended that the Board setup the following committees (in addition to those which are mandatory or optional under SEBI and other applicable regulations):
 - Audit Committee.
 - Nomination and Remuneration Committee.
 - Corporate Social Responsibility (“CSR”) Committee.
 - Stakeholders Relationship Committee.
- The head of the Internal Audit function of the company shall have a direct and independent line of reporting to the Audit Committee

- In addition, the Board at its discretion may also set up a 'Committee of the Board' ("CoB"), chaired by the Chairman of the Board. The purpose of the committee is to enhance the overall effectiveness and efficiency of the functioning of the Board through suitable delegation of roles, responsibilities and authority. To this end, the Board is responsible for determining and defining the role, responsibility and authority of the CoB. The Board will accordingly delegate the required powers and authority to the committee to achieve the purpose.
- It is recommended that all the above Board committees have representation of at least one ID (unless otherwise provided by law) and one Non-Independent NED.
- Companies whose equity is listed as well as Non-Banking Financial Institutions need to setup a Risk Management Committee ("RMC"). The committee may be staffed with executives from the company and delegated the responsibility of monitoring and reviewing the risk management plan and such other functions as the Board deems fit. For companies whose equity is listed, the RMC shall comprise a majority of directors and the said committee would require to be chaired by a director.
- Companies which have substantial issues/ risks to be managed from the perspective of health, safety and environment may additionally set up a Health, Safety, Environment ("HSE")/ Safety, Health, Environment ("SHE") Committee. The committee may be staffed with the MD/ EDs and executives from the company and may be delegated the responsibility for oversight of the policies related to safety, health and environment and their implementation across the company.
- It is also recommended as a good governance practice to review and as appropriate refresh the membership of the above committees periodically. The Board supported by the NRC is responsible for this periodical review.
- The key mandates of the committees are outlined in the relevant section below (Section 8).

3. Board Appointment, Induction and Development

3.1. Procedure for Nomination and Appointment of Directors

- It is the responsibility of the NRC to develop competency requirements for the Board based on the industry and strategy of the company. Board composition analysis should ideally reflect in-depth understanding of the company, including its strategies, environment, operations, financial condition and compliance requirements.
- It is recommended that the NRC conduct a gap analysis and refresh the Board on a periodic basis, including every time a director's appointment or reappointment is required.

- Board members may provide director nominations to the Chairman of the NRC. The Chairman of the NRC should ideally maintain a list of nominees. The nominees should have a good personal and professional reputation.
- To meet the objectives of driving diversity and an optimum skill mix, the NRC may seek the support of Group Human Resources. Recommended sources of directors could be active and retired CXOs, professional persons and experts in relevant fields.
- The NRC is responsible for reviewing and vetting the CVs of the potential candidates vis-a-vis the required competencies. The committee is also responsible for meeting potential candidates prior to making recommendations of their nomination to the Board. Group Human Resources may, as required, attend the NRC meetings to support the nomination process.
- It is the responsibility of the NRC to make recommendations to the Board in relation to the appointment of new directors. The NRC should conduct appropriate reference checks and due diligence on all director prospects before recommending them to the Board.
- Post approval, the desired candidate is invited to join the Board.
- At the time of appointment, the specific requirements for the position should be communicated to the person, including the expert knowledge expected.

3.2. Director's Induction and Development

- The NRC will ensure an effective familiarization program for new directors.
- The familiarization program may include:
 - Roles, rights and responsibilities of directors.
 - Mechanisms to build working relationship among the Board members.
 - Core values, ethics and corporate governance practices of the Tata companies.
 - Industry/ sectorial overview, company's vision, strategic direction, business model.
 - Financial matters, management team and business operations.
 - Meetings with stakeholders, visit to business locations and meetings with senior and middle management.
- Directors are expected to make and implement their own plan for refreshing their knowledge.
- The NRC will support the directors, as may be required, to continually update their skills and knowledge and their familiarity with the company and its business.
- Training can be conducted by the company's experts from relevant fields, or by an external agency at Tata Management Training Center ("TMTC") or at appropriate institutions.
- The company will fund/arrange for training on all matters which are common to the Board.

4. Director Remuneration

4.1. Non-Executive Director (IDs and Non-Independent NEDs)

- IDs and non-independent NEDs may be paid sitting fees for attending the meetings of the Board and of committees of which they may be members.
- Within the prescribed law, the payment of sitting fees and commission will be recommended by the NRC and approved by the Board.
- The aggregate commission payable to all the non-independent NEDs and IDs will be recommended by the NRC to the Board based on company performance, profits, return to investors, shareholder value creation etc.
- The NRC will recommend to the Board the quantum of commission for each director based upon various factors including attendance & time spent in the Board and committee meetings, individual contributions at the meetings and contributions made by directors other than in meetings.
- In addition to the sitting fees and commission, the company may pay to any director such fair and reasonable expenditure, as may have been incurred by the director while performing his/ her role as a director of the company. This could include expenditure incurred by the director for attending Board/ Board committee meetings, general meetings, court convened meetings, meetings with shareholders/ creditors/ management, site visits, induction and training (organized by the company for directors) and in obtaining professional advice from independent advisors in the furtherance of his/ her duties as a director.

4.2. Managing Director and Executive Director

- The MD and EDs should submit their goals to the NRC at the start of the financial year.
- Goals of the MD and EDs should ideally have a balance of quantitative and qualitative parameters. The goals should ideally also balance the long term and short term outcomes. If the company is utilizing the Balanced Scorecard model, the goals should be in line with the Balanced Scorecard.
- The NRC should conduct a year-end performance review of the MD and EDs.
- The Chairman of the Board is responsible for providing feedback to the MD and EDs on a periodic basis.
- MD and EDs will be paid a basic salary, allowances, perquisites, benefits, and incentive in alignment with the regulatory requirements. The level and composition of remuneration will be such as to attract, retain and motivate the required quality of professionals.

4.3. Insurance

- Directors and Officers liability insurance should be taken covering all directors and senior officials for such amount, as is determined to be reasonable by the Board.

5. Subsidiary Oversight

- The NRC of the holding/ parent company will provide guidelines for remuneration of directors on material subsidiaries¹.
- Public companies whose equity is listed, need to follow the provisions of Clause 49 which are as follows:
 - *“The minutes of the Board meetings of the unlisted subsidiary company shall be placed at the Board meeting of the listed holding company. The management should periodically bring to the attention of the Board of Directors of the listed holding company, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary company.*
 - *The Audit Committee of the listed holding company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company.”*
- Audit Committee of the material subsidiary¹ (as required by law or for business reasons) may consider and adopt the policies, procedures and processes laid down by the Audit Committee of the holding company. Further, critical issues may be referred by the Audit Committee of the material subsidiary¹ to the Audit Committee of the holding company.
- The chief internal auditor of the holding company shall oversee the internal audit and risk management function of all material subsidiaries¹, and will carry out periodic assessments either directly or through an outsourced/co-sourced arrangement.
- For larger organizations having multiple subsidiaries, it is recommended that a specific subsidiary oversight office be created, to support the Board in oversight of the operations of the subsidiaries (subject to compliance with law), as also to monitor on-going relationship between the subsidiary and its holding company.

6. Code of Conduct

6.1. Tata Code of Conduct for Managing Director, Executive Directors and Non-independent NEDs

- The MD, EDs and non-independent NEDs are required to comply with the Tata Code of Conduct.

6.2. Code for Independent Directors

- IDs need to adhere to the professional conduct standards as prescribed by the Act in the “Code for independent directors” (also provided in part in section 2.8).
- In addition to the Act, IDs need to adhere to the Tata Code of Conduct for NEDs which is as follows:

- NEDs of a company will always act in the interest of the company and ensure that any other business or personal association which they may have does not involve any conflict of interest with the operations of the company and their role therein.
- NEDs will comply with all applicable laws and regulations of all the relevant regulatory and other authorities as may be applicable to such directors in their individual capacities.
- NEDs will safeguard the confidentiality of all information received by them by virtue of their position.

7. Board Effectiveness Review

- The Board is responsible for annual evaluation of the individual directors, the Board committees and the Board as a whole.
- It is the responsibility of the NRC to organise the evaluation process.
- The NRC is also responsible for supporting the Board with the determination of the evaluation criteria/ framework for the Board and individual directors (this includes the Chairman, IDs, Non-Independent NEDs, MD/ EDs). While determining the framework for the evaluation of the Board, the Board should establish key criteria for long term value creation for all stakeholders.
- An annual meeting of IDs (“Annual ID meeting”) would be convened by the Chairman of the NRC to
 - *“Review the performance of non-independent directors;*
 - *Review the performance of the Board as a whole;*
 - *Review the performance of the Chairperson of the company, taking into account the views of executive directors and non-executive directors”.*
- The Company Secretary of the company is responsible for providing support (as may be required) to the Chairman of the NRC for conduct of the Annual ID meeting.
- The Board should state in its Annual Report as to how the performance evaluation of the Board, individual directors and its committees has been conducted.
- Group Human Resources will support the NRC with appropriate evaluation templates and reporting format.

7.1. Board Evaluation

7.1.1. Board Questionnaire

- On an annual basis, each director would require to provide feedback for the Board as a whole on a defined questionnaire template confidentially (Annexure 1 provides the indicative questionnaire template).
- Some indicative areas for Board evaluation include:
 - Degree of fulfilment of key responsibilities,

- Board structure and composition,
- Establishment and delineation of responsibilities to Committees,
- Effectiveness of Board processes, information and functioning,
- Board Culture and Dynamics,
- Quality of relationship between Board and the management,
- Efficacy of communication with various stakeholders.
- The feedback provided by the directors on the questionnaire may be consolidated by Group Human Resources and provided to the NRC Chairman.

7.1.2. Annual ID meeting

- The NRC Chairman would convene an Annual ID meeting to review performance of the Board as a whole. (In the same meeting the IDs will also review the performance of the non-independent NEDs and Chairman as provided in section 7.2.2)
- The minutes of the Annual ID meeting will record the process. Post the Annual ID meeting, the collective feedback of the IDs on the performance of the Board (as a whole) will be discussed by the Chairman of the NRC with the Chairman of the Board.

7.1.3. Overall board effectiveness discussion by Chairman with Board

- Any significant highlights/ learnings basis the consolidation of feedback may be presented to the Board by the Chairman of the Board for action planning (if any).

7.2. Individual Director Evaluation

7.2.1. Managing Director and Executive Directors

- MD and EDs would be evaluated on goals (quantitative and qualitative) set at the beginning of the year by the NRC.

7.2.2. Chairman and Non-independent NEDs

- The process for evaluation of the Chairman and non-independent NEDs is as follows:
 - Self-assessment questionnaire filled in by the Chairman and non-independent NEDs (Annexure 2a provides the indicative template for non-independent NEDs and Annexure 2b provides the indicative template for the Chairman).
 - Some indicative areas for evaluation of the non-independent NEDs include:
 - Attendance (as captured from records of meetings)
 - Contribution at Board meetings

- Guidance/ support to management outside Board/ committee meetings
- Additionally, the Chairman may be evaluated on key aspects of the role (as provided in section 2.2).
- Filled-in self-assessment questionnaire templates will be given by the Chairman and the non-independent NEDs to the NRC Chairman.
- The NRC Chairman would use these filled-in self-assessment questionnaire templates as the basis for discussion in the Annual ID meeting to review non-independent NEDs and the Chairman of the Board, (for the Chairman of the Board, the NRC Chairman would also need to discuss and obtain views, if any, of the non-independent directors prior to the Annual ID meeting). (In the same meeting the IDs will also review the performance of the Board as a whole as provided in section 7.1.2)
- The minutes of the Annual ID meeting will record the process. Post the Annual ID meeting, the collective feedback of the IDs will be discussed by the Chairman of the NRC with the Chairman of the Board covering:
 - Performance of the Board as a whole;
 - Performance of the non-independent directors;
 - Performance of the Chairman of the company.

7.2.3. IDs

- The process for evaluation of the IDs is as follows:
 - Self-assessment questionnaire filled in by the IDs (Annexure 2a provides the indicative template for IDs)
 - Filled-in self-assessment questionnaire templates will be given by the Chairman of the Board.
 - Some indicative areas for evaluation of IDs include:
 - Attendance (as captured from records of meetings)
 - Contribution at Board meetings
 - Guidance/ support to management outside Board/ committee meetings
 - The Chairman of the Board will seek feedback from each director about their views on the Board and the directors, if any.
 - The Chairman of the Board will provide feedback on individual basis, as appropriate.

7.3. Board Committee Evaluation

- Committees (Audit Committee, NRC, Committee of the Board and any additional committee as per the Board's discretion) may use a questionnaire based mechanism for the purpose of evaluation on an annual basis.
- Evaluation inputs need to be sought from committee members (sample questionnaire template is provided in Annexure 3).
- Some indicative areas for evaluation of Board committees include:

- Degree of fulfilment of key responsibilities,
- Adequacy of Board committee composition,
- Effectiveness of meetings,
- Committee Dynamics,
- Quality of relationship of the committee with Board and the management.
- The self-evaluation report in terms of the Committee Report will need to be provided to the Board. This report should also highlight any exceptional items that have been mandated by the Board which have not been carried out by the committee. A discussion on this report with the Board may then be facilitated by the Chairman of the committee.

8. Mandates of the Board Committees

The mandate of the various Board Committees shall cover the matters specified by law/regulator, but should ideally include the following:

8.1. Audit Committee

- As per the Act,
 - *“The Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include,—*
 - *the recommendation for appointment, remuneration and terms of appointment of auditors of the company;*
 - *review and monitor the auditor’s independence and performance, and effectiveness of audit process;*
 - *examination of the financial statement and the auditors’ report thereon;*
 - *approval or any subsequent modification of transactions of the company with related parties;*
 - *scrutiny of inter-corporate loans and investments;*
 - *valuation of undertakings or assets of the company, wherever it is necessary;*
 - *evaluation of internal financial controls and risk management systems;*
 - *monitoring the end use of funds raised through public offers and related matter.*
 - *The Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.*
 - *Establish a vigil mechanism for directors and employees to report genuine concerns in such manner as may be prescribed.”*

- As per Clause 49,
 - *“The role of the Audit Committee shall include the following:*
 - *Oversight of the company’s financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;*
 - *Recommendation for appointment, remuneration and terms of appointment of auditors of the company; (as also provided in the Act)*
 - *Approval of payment to statutory auditors for any other services rendered by the statutory auditors;*
 - *Reviewing, with the management, the annual financial statements and auditor’s report thereon (as also provided in the Act) before submission to the board for approval, with particular reference to:*
 - *Matters required to be included in the Director’s Responsibility Statement to be included in the Board’s report in terms of clause (c) of sub-section 3 of section 134 of the Companies Act, 2013*
 - *Changes, if any, in accounting policies and practices and reasons for the same*
 - *Major accounting entries involving estimates based on the exercise of judgment by management*
 - *Significant adjustments made in the financial statements arising out of audit findings*
 - *Compliance with listing and other legal requirements relating to financial statements*
 - *Disclosure of any related party transactions*
 - *Qualifications in the draft audit report*
 - *Reviewing, with the management, the quarterly financial statements before submission to the board for approval;*
 - *Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.) (as also provided in the Act), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter;*
 - *Review and monitor the auditor’s independence and performance, and effectiveness of audit process; (as also provided in the Act)*
 - *Approval or any subsequent modification of transactions of the company with related parties; (as also provided in the Act)*
 - *Scrutiny of inter-corporate loans and investments; (as also provided in the Act)*

- Valuation of undertakings or assets of the company, wherever it is necessary; (as also provided in the Act)
 - Evaluation of internal financial controls and risk management systems; (as also provided in the Act)
 - Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
 - Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
 - Discussion with internal auditors of any significant findings and follow up there on;
 - Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;
 - Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
 - To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;
 - To review the functioning of the Whistle Blower mechanism;
 - Approval of appointment of CFO (i.e., the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience and background, etc. of the candidate;
 - Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.
- 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 be subject to review by the Audit Committee.”
- Additionally, the Audit Committee of the Board of a Tata company will also need to

- Oversee financial reporting controls and process for material subsidiaries¹.
- Oversee compliance with legal and regulatory requirements including the Tata Code of Conduct (“TCoC”) for the company and its material subsidiaries¹.

8.2. Nomination and Remuneration Committee

- Recommend to the Board the setup and composition of the Board and its committees. This shall include “*Formulation of the criteria for determining qualifications, positive attributes and independence of a director*”. The committee will consider periodically reviewing the composition of the Board with the objective of achieving an optimum balance of size, skills, independence, knowledge, age, gender and experience.
- Recommend to the Board the appointment or reappointment of directors.
- Devise a policy on Board diversity.
- Recommend to the Board appointment of Key Managerial Personnel (“KMP” as defined by the Act) and executive team members of the company (as defined by this committee).
- Support the Board and IDs in evaluation of the performance of the Board, its committees and individual directors. This shall include “*Formulation of criteria for evaluation of Independent Directors and the Board.*” Additionally, the committee may also oversee the performance review process of the KMP and the executive team of the company.
- Recommend to the Board the remuneration policy for directors, executive team/ KMP as well as the rest of the employees.
- On an annual basis, recommend to the Board the remuneration payable to directors and executive team/ KMP of the company.
- Oversee familiarisation programmes for directors.
- Oversee the HR philosophy, HR and People strategy and HR practices including those for leadership development, rewards and recognition, talent management and succession planning (specifically for Board, KMP and executive team).
- Provide guidelines for remuneration of directors on material subsidiaries¹.
- The NRC of a parent/ holding company shall recommend to its Board how the company will vote on resolutions for appointment and remuneration of directors on the Boards of its material subsidiary companies¹.
- Performing such other duties and responsibilities as may be consistent with the provisions of the committee charter.

8.3. Corporate Social Responsibility Committee

- As per the Act, “*the Corporate Social Responsibility Committee shall*
 - *Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company;*

- *Recommend the amount of expenditure to be incurred on the activities referred to in clause above; and*
- *Monitor the Corporate Social Responsibility Policy of the company from time to time.”*
- Additionally, the CSR committee of the Board of a Tata company may also
 - Oversee the company’s conduct with regard to its corporate and societal obligations and its reputation as a responsible corporate citizen.
 - Oversee activities impacting the quality of life of various stakeholders.
 - Monitor the CSR policy and expenditure of the material subsidiaries¹.

8.4. Stakeholders Relationship Committee

- Review statutory compliance relating to all security holders.
- *Consider and resolve the grievances of security holders of the company including complaints related to transfer of securities, non-receipt of annual report/declared dividends/notices/ balance sheet.*
- Oversee compliances in respect of dividend payments and transfer of unclaimed amounts to the Investor Education and Protection Fund.
- Oversee and review all matters related to the transfer of securities of the company.
- Approve issue of duplicate certificates of the company.
- Review movements in shareholding and ownership structures of the company.
- Ensure setting of proper controls and oversee performance of the Registrar and Share Transfer Agent.
- Recommend measures for overall improvement of the quality of investor services.
- Set forth policies relating to and oversee implementation of the Code of Conduct for prevention of Insider Trading (in case of absence of a separate committee setup for this purpose).