WP-2016-015

Compliance in Letter and Compliance in Spirit? - Evidence from Board and Audit Committee Meetings in India

Subrata Sarkar

Indira Gandhi Institute of Development Research, Mumbai
May 2016
http://www.igidr.ac.in/pdf/publication/WP-2016-015.pdf

Compliance in Letter and Compliance in Spirit? - Evidence from Board and Audit Committee Meetings in India

Subrata Sarkar
Indira Gandhi Institute of Development Research (IGIDR)
General Arun Kumar Vaidya Marg
Goregaon (E), Mumbai- 400065, INDIA
Email(corresponding author): ssarkar@igidr.ac.in

Abstract

This paper analyzes two notions of compliance, 'compliance in letter' and 'compliance in spirit', using data on Board and Audit Committee meetings from India under its Clause 49 corporate governance regulations. The analysis is based on the sample of top 500 companies listed on the country's oldest stock exchange - the Bombay Stock Exchange -- and covers a period of seven years starting from 2006 when the modified version of the clause that contained a large number of corporate governance regulations came into effect in India. The analysis shows that while most of the companies complied with the explicit regulations relating to the number and interval between meetings, a significant percentage of the companies held all their Board and Audit Committee meetings on the same day which is not prohibited under the regulations but unexpected given the onerous responsibilities that same-day meetings put on directors who serve both on the Board and the Audit Committee. The incidence of same-day Board and Audit Committee meetings did not correlate with poor past performance of the company and multiple directorships of directors which could be potential drivers of same-day meeting for generating higher attendance to harness the expertise of as many directors as possible. Instead the incidence of same-day meetings correlated strongly with poor governance structures captured by lower board size, lower percentage of independent directors on the Board and the presence of inside directors in Audit Committees. Same-day Board and Audit Committee meetings did not result in higher meeting attendance by directors. The empirical analysis suggests that while 'compliance in letter' was high, â€œcompliance in spirit' was low.

Keywords: Corporate Governance, Compliance, Board of Directors, Audit Committee

JEL Code: C43, G18, G34, M41, M42

Acknowledgements:

I would like to thank Sejal Gajjar, Shreya Biswas and Dhritisree Sarkar for creating the "meeting dates" database and excellent research assistance.

Compliance in Letter and Compliance in Spirit? - Evidence from Board and Audit Committee Meetings in India[1]

Subrata Sarkar
Indira Gandhi Institute of Development Research
A.K. Vaidya Marg, Mumbai 400065, INDIA
Email: ssarkar@igidr.ac.in
Phone: +91 22 28416 577

This Version: May 2016

[1] I would like to thank Sejal Gajjar, Shreya Biswas and Dhritisree Sarkar for creating the "meeting dates" database and excellent research assistance.

Compliance in Letter and Compliance in Spirit? - Evidence from Board and Audit Committee Meetings in India

Abstract

This paper analyzes two notions of compliance, 'compliance in letter' and 'compliance in spirit', using data on Board and Audit Committee meetings from India under its Clause 49 corporate governance regulations. The analysis is based on the sample of top 500 companies listed on the country's oldest stock exchange – the Bombay Stock Exchange -- and covers a period of seven years starting from 2006 when the modified version of the clause that contained a large number of corporate governance regulations came into effect in India. The analysis shows that while most of the companies complied with the explicit regulations relating to the number and interval between meetings, a significant percentage of the companies held *all* their Board and Audit Committee meetings on the same day which is not prohibited under the regulations but unexpected given the onerous responsibilities that same-day meetings put on directors who serve both on the Board and the Audit Committee. The incidence of same-day Board and Audit Committee meetings did not correlate with poor past performance of the company and multiple directorships of directors which could be potential drivers of same-day meeting for generating higher attendance to harness the expertise of as many directors as possible. Instead the incidence of same-day meetings correlated strongly with poor governance structures captured by lower board size, lower percentage of independent directors on the Board and the presence of inside directors in Audit Committees. **S**ame-day Board and Audit Committee meetings did not result in higher meeting attendance by directors. The empirical analysis suggests that while 'compliance in letter' was high, "compliance in spirit' was low.

Keywords: Corporate Governance, Compliance, Board of Directors, Audit Committee
JEL Code: C43, G18, G34, M41, M42

1.0 Introduction

The Board of Directors and the Audit Committee are two important internal mechanisms promoting good governance in companies. While the Board is entrusted with the task of providing strategic direction, planning, performance assessment of the executive team and overall supervision of the company, the Audit Committee is assigned the responsibility of ensuring the sufficiency, integrity, and credibility of the company's financial statements, the independence of the external auditor and adequacy of the internal control system. Accordingly, governance regulations in most countries, including India, specify a structured list of the duties and responsibilities of the Board and Audit Committee as well as their composition.

One of the significant channels through which the Board and Audit Committee discharge their responsibilities is through meetings. Meetings provide an opportunity for directors serving on the Board and the Audit Committee to interact and assess the performance of company as well as their own performance with respect to the specified responsibilities and take appropriate actions as required. Recognizing the importance of these meetings, regulations in many countries specify that the Board and the Audit Committee should meet a minimum number of times within a year at periodic intervals. Frequent and regular meetings provide an opportunity for continuous and contemporary assessment of strategy, managerial performance, financial reporting and regulatory compliance. For example, the Clause 49 Regulations in India require that the Board and the Audit Committee must each meet at least four times a year[2] with a maximum gap of four months between two meetings.

However, specification of the minimum number and the maximum gap between meetings only provide the necessary conditions for the effective functioning of the Board and the Audit Committee. The actual success of these meetings in achieving the governance objectives depend on following an effective Board and Audit Committee process which include among other things, preparation of agenda and its timely circulation that give sufficient opportunity to outside directors to examine and opine on the agenda items, and holding meetings of sufficient duration which allow exhaustive deliberation and discussion. These details of Board and Audit Committee process are not explicitly provided under the regulation but are implicit in the

[2] Under the new regulations notified on April 17, 2014.

importance attached to Board and Audit Committee meetings and in the limits set on multiple directorships to ensure that directors, especially outside directors, find enough time to devote to each company for discharging all the responsibilities placed on them. Constituting and following an effective Board and Audit Committee meeting process is the 'spirit' of the regulations.

Do all companies adhere to this spirit of regulation? This of course is not directly observable but perhaps can be inferred from some observable characteristics. One such observable characteristic is whether Board and Audit meetings are held on different days. Though the laws in most countries do not provide that Board and Audit Meetings be held on different days, given the large set of duties and responsibilities entrusted to the Board and the Audit Committee, it is reasonable to postulate that directors would be stretched if these meetings were held on the same day. The concern is real because directors serving on the Audit Committee are a subset of the directors serving on the Board with a typical Audit Committee consisting of four to five members in most countries. For example, a reading of the Clause 49 regulations in India reveal that the duties and responsibilities entrusted to the Audit Committee are quite demanding and have increased manifold over the years. In particular, the duty and responsibilities encompass not only ensuring the integrity and credibility of the accounts, but cover a wide gamut of functions covering the appointment of the external auditor, setting of auditor fees, approval of all non-audit services to be rendered by the external auditor, review and assessment of the internal audit function, examination and approval of all related party transactions, prevention of financial defaults and fraud, and examination of the whistle blower policy. Under such circumstances, holding the Board meeting and the Audit Committee meeting on the same day is likely to put an onerous burden on directors also serving on the Audit Committee.

However, notwithstanding the above argument, companies may prefer to hold same-day Board and Audit Committee meetings for several reasons. Of principal reason could be to ensure higher attendance of its directors, especially those who hold multiple directorships in other companies and therefore have to attend meetings in those companies as well. Yet another reason of holding same day meetings could be poor company performance in the earlier years where the higher attendance expected in same-day meetings could be beneficial to harness the expertise of as many directors as possible to chalk out a strategy of financial turnaround. An alternative explanation of same-day Board ad Audit Committee meetings could, however, be that it serves an easy, convenient and less expensive way of complying governance regulations in letter that only specify the minimum number of Board and Audit Committee meetings and the maximum gap between meetings, but does not have any explicit requirement or advisory that Board and Audit Committee meetings ought to be held on different days, unless otherwise warranted.

Thus by relating the characteristics of companies with the incidence of same-day Board and Audit meetings we can draw some reasonable inference about compliance in sprit of the regulations by a company. It one finds that companies that hold same day board meetings do not have more busy directors and are not poorly performing and do not record higher attendance, then one may be justified in inferring that the company may not be complying with the regulations in spirit. This inference will be strengthened if one finds that the incidence of same day Board and Audit Committee meetings also correlate with weak governance structures.

In this paper we try to empirically analyze this notion of compliance in letter and compliance in spirit by looking at the stylized facts related to Board and Audit Committee meetings using data from India on its top 500 companies listed on the country's oldest stock exchange – the Bombay Stock Exchange. We carry out this analysis for a period of seven years starting from the year 2006 when a significantly modified version of Clause 49 that contain a number of corporate governance regulations came into effect in India[3].

For compliance in letter we analyze the frequency and gap between Board meetings as specified under the Clause 49 regulations. We redo this analysis with respect to Audit committee meetings where a separate regulation is in place. We then examine overall compliance by aggregating compliance of these two separate regulations. We relate this overall compliance to the governance structure and past performance of companies. For compliance in spirit we look at the incidence of same-day Board and Audit meetings and relate it to the busyness of directors, past financial performance and the governance structure of the company. We compare and contrast the attendance of directors of Board meetings and Annual General Meeting in companies which hold same-day meetings with the attendance recorded by companies which hold Board and Audit

[3] The first version of the Clause 49 regulation came into effect from April 1, 2001.

meetings over different days. As outlined above while mere occurrence of same-day meetings may not imply lack of compliance in spirit, a strong but unexpected correlation of the incidence with director and governance characteristics, accompanied by similar or lower attendance in these meetings may suggest an increase in the likelihood of lack of compliance in spirit.

Our analysis indicates that while there was high compliance of the Clause 49 regulation with respect to the minimum number of Board and Audit Committee meetings, the compliance with respect to the gap between meetings was much less, with only forty percent of the companies adhering to the Clause 49 regulations. Most of the violations, however, came from violations in the interval between Board meetings (about 56 percent) with four percent of the companies not complying the interval regulations with respect to Audit Committee meetings. The interval violations with respect to Board meetings exhibit an upward trend over the years. The high interval violations with respect to Board meetings reflect the fact that the Clause 49 regulations give companies much less flexibility for scheduling Board meetings (four meetings with a maximum gap of three months) compared to Audit Committee meetings (four meetings with a maximum gap of four months). Regression analysis of the intensity of violation that aggregates the number of violations with respect to both frequency and gap of Board and Audit committee meetings, indicates that this intensity correlates strongly with weak governance structures captured in terms of board and audit committee composition as well as ownership structures.

With respect to gap between Board and Audit Committee meetings, where there is no explicit regulation, the analysis indicates that nearly three-fourths of the companies held same-day Board and Audit committee meetings at least one time in a year, and nearly two-fifths of the companies held same-day at least four times in a year. The incidence of same-day Board and Audit committee meetings increased remarkably over the period. While in 2006, 63 percent of the companies held same-day Board and Audit committee meetings at least one time and 40 percent at least four times, by 2012 these percentages had increased to 79 percent and 55 percent respectively.

However, the incidence of same-day Board and Audit Committee meetings does not correlate with poor past performance of the company and busyness of directors, captured by the number of multiple directorships, which could be potential drivers of same-day meeting for generating higher attendance to harness the expertise of as many directors as possible. **S**ame-day Board and Audit Committee meetings do not result in higher meeting attendance by directors. Instead the incidence of same-day meetings correlates strongly with poor governance structures captured by lower board size, lower percentage of independent directors on the Board and the presence of inside directors in Audit Committees. The empirical analysis suggests that while ‘compliance in letter’ is high, “compliance in spirit’ could be low. Admittedly, the inference is somewhat indirect but taking together the persistent and significant increase in the incidence of same-day Board and Audit committee meetings over a long seven year period, coupled with lack of significance of the usual factors, the inference is strong.

The rest of the paper is organized in the following sections. Section 2 describes the relevant Clause 49 regulations in India with respect to the frequency and gap of Board and Audit Committee meetings and their evolution over time followed by a summary of the questions addressed in the paper. Section 3 provides details of the data and the sample used for the empirical analysis. Section 4 contains the stylized facts and the regression analysis for compliance in letter as captured by the observed frequency and gap for Board and Audit Committee meetings, while Section 5 contains the corresponding results for compliance in spirit as captured by the incidence of same-day Board and Audit Committee meetings. Section 6 concludes the paper.

2.0 Clause 49 Regulations Relating to Importance of Board and Audit Committee Meetings in India

In this section we review the Clause 49 regulations in India that pertain to the number and interval of Board meetings and Audit Committee meetings as well as the regulations that implicitly emphasize the importance of both these meetings and responsibilities of directors serving on the Board and the Audit Committee.

2.1 Regulations relating to number and gap between meetings

Clause 49 of the Listing Agreement which contains detailed corporate governance regulations for listed companies above a certain size[4] was first notified on February 21, 2000 and made applicable by March 31, 2003. The initial Clause required that all listed companies hold (a) at least four Board meetings in a year with a maximum gap of *four* months (emphasis added) between any two meetings and (b) at least *three* (emphasis added) Audit Committee meetings, with one meeting every six months and one before finalization of the accounts.

> *The company agrees that the board meeting shall be held at least four times a year, with a maximum time gap of four months between any two meetings. The minimum information to be made available to the board is given in Annexure–I.*
> (Section IV A, SEBI Circular SMDRP/POLICY/CIR-10/2000)
>
> *The audit committee shall meet at least thrice a year. One meeting shall be held before finalisation of annual accounts and one every six months. The quorum shall be either two members or one third of the members of the audit committee, whichever is higher and minimum of two independent directors.*
> (Section IIB, Circular SMDRP/POLICY/CIR-10/2000)

The initial Clause underwent a large number of revisions and a significantly modified version of Clause 49 was notified on October 29, 2004 and implemented effective January 1, 2006. Under the revised Clause, while the minimum number of Board meetings was kept at four, the gap between these meetings was reduced to *three* months (emphasis added). The minimum number of Audit Committee meetings was increased to four with not more than *four* months (emphasis added) gap in between meetings.

> *The board shall meet at least four times a year, with a maximum time gap of three months between any two meetings. The minimum information to be made available to the board is given in Annexure– IA.*
> (Section I(C) (i), SEBI Circular SEBI/CFD/DIL/CG/1/2004/12/10
>
> *The audit committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.*
> (Section I(B), SEBI Circular SEBI/CFD/DIL/CG/1/2004/12/10

[4] Clause 49, was first notified via SEBI Circular SMDRP/POLICY/CIR-10/2000 dated February 21, 2000, and was applicable to all listed companies with a paid up capital of Rs. 3 cores (Rs. 30 million) or more or net worth of Rs 25 crores (Rs. 250 million) or more at any time in the history of the company. The Clause was implemented in a phased manner starting with the larger listed companies which were required to comply with guidelines by March 31, 2001 and then progressively extending to the smaller companies which were required to comply by March 31, 2003. Please see the Circular for exact details.

Noticeable in the revised regulation is the asymmetry in the gap specified for Board meetings and for Audit Committee meetings. Perhaps the regulation wanted Board meetings to occur at closer intervals as the functions of the Board were perceived to be wider compared to that of the Audit Committee and warranted more contemporary and quicker assessment. However, the revised Clause lowered the flexibility of companies to schedule Board meetings. Of course, e this could be addressed by increasing the number of Board meetings from the stipulated minimum of four, but holding of additional meetings could be costly, especially for smaller companies that had to balance the perceived governance benefits with the implied costs. Perhaps in recognition of this, the updated version of Clause 49 which was notified on April 17, 2014 following the enactment of the Companies Act, 2013, harmonized the minimum number as well as the gap for Board and Audit Committee meetings with the minimum number fixed at four and the maximum gap stipulated at four months for both. However, there is still a minor difference even in the new regulations: while for Board meetings the maximum gap is specified as “one hundred and twenty days”, for Audit Committee meetings it is specified as “four months” which has the potential of creating some confusion. It could have been better if both gaps were specified in terms of days.

The Board shall meet at least four times a year, with a maximum time gap of one hundred and twenty days between any two meetings.
(Section IID (1), SEBI Circular CIR/CFD/POLICY CELL/2/2014)

The Audit Committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.
(Section IIIB), SEBI Circular CIR/CFD/POLICY CELL/2/2014)

In the context of our analysis, however, only the second SEBI Circular dated October 29, 2004 is relevant as our analysis covers the period 2006 to 2012.

2.2 Regulations emphasizing importance of board and audit committee meetings

Clause 49 lists a large number of functions that are to be carried out the Board and the Audit Committees. The number of items listed under the regulations has increased progressively with every new notification of Clause 49. The newly added functions, especially with respect to directors serving on Audit Committees, have become quite elaborate and involving over the years emphasizing different aspects of financial reporting and disclosures and items related to related party transactions. Recognizing that the duties and responsibilities expected of members who serve on the Board and the Audit Committee are quite onerous, Clause 49 has also prescribed limits to multiple directorships and committee memberships, so that directors find sufficient time to discharge their responsibilities.

2.2.1 Regulations relating to the functions of the Board and the Audit Committee

This subsection outlines the duties and responsibilities of the Board and the Audit Committee specified under the Clause 49 regulations. For contextual relevance we start with the modified Clause 49 notified on October 29, 2004 which is most relevant for our analysis. However, we also cover the specifications in the newly notified version of April 17, 2014 to provide a perspective of the expanding expectation of the regulations with respect to the Board and the Audit Committee.

Clause 49 of October 2004 did not have any separate provisions regarding the functions of the Board apart from those specified under the Companies Act of 1956 which were applicable to all registered companies. The Companies Act, 2013 which updated, rationalized and added a host of regulations regarding how registered companies are operated in India, also specified separate regulations applicable only to listed companies. Subsequently, the newly notified Clause 49 of April 17, 2014 now contains explicit provisions regarding the functions of the Board. These are given in the Box 1 below. Interestingly, one of the items listed is that “Board members should be able to commit themselves effectively to their responsibilities (refer Section II D 3l.)

The 2004 version of Clause 49 had explicit provisions regarding the role of the Audit Committee. To a large extent this reflects the great importance placed on the functions that the Audit Committee was expected to discharge, coupled with the fact that the Companies Act, 1956 which was operative at that time did not have any detailed specifications for Audit Committees unlike that for the Board. Recognizing that the Audit Committee played a vital role in ensuring that the financial statements of a company gave a complete and fair view of its operations and that the audit process is conducted independently by the external auditor, Clause 49 listed down the important functions of the Audit Committee. This included the hiring of the external auditor, the scope of the audit process, the list of prohibited non-audit services, auditor fees, ensuring independence of the audit process, and if required, the removal of the external auditor. The newly notified Clause of April 17, 2014 increased the responsibilities of the Audit Committee by further detailing out the need for oversight with respect to related party transactions, inter corporate loans and appointment of the Chief Financial Officer (CFO). The functions of the Audit Committee are given in Box 2 and Box 3.

2.2.2 Regulations relating to multiple directorships and committee memberships

Given the large number of functions envisaged for the Board and the Audit Committee, it is only expected that demand on directors in terms of their time and commitment, especially for those directors who serve on both the Board and the Audit Committee, would be formidable. Recognizing this Clause 49 set limits to the number of multiple directorships and chairmanships that an individual director can hold across various companies. Many countries around the world set such limits though there are countries which have left this choice to the directors or to the companies with proper justification, the US for example. But implicit in all regulations, irrespective of whether there are regulatory limits or not, the law requires that directors must discharge faithfully all the responsibilities entrusted to them.

Clause 49 as notified in 2004 had limits set only on committee memberships and committee chairmanship but had no explicit regulations on board memberships. Presumably, since committee memberships and chairmanships are accorded only to directors serving on the Board, the 2004 regulations had an implicit restriction on multiple directorships. However, this has been explicitly stated under the newly notified version of April 17, 2014. The relevant regulations with respect to multiple directorships are presented in Box 4. Clause 49 Regulations did not impose any separate limit on the number of directorships held by directors serving on the Audit Committees unlike the NYSE regulations which only require an affirmative determination of the ability of a director with more than three directorships to serve on the Audit Committees.

2.3 Questions addressed in the Paper

As the discussion in the previous section indicates, while there is no stipulation that Board and Audit Committee meetings cannot be held on the same date, an enumeration of the large number of responsibilities envisaged for directors, especially those serving on both the Board and the

Audit Committee, makes it reasonable to assume that directors will be stretched if these meetings were held on the same day most of the time within a company, and most of the time in the other companies on they serve as directors.

However, as pointed out earlier, companies may prefer to hold same-day Board and Audit Committee meetings for several reasons. Of these, a principal one could be to ensure higher attendance of its directors who hold multiple directorships in other companies and therefore have to attend meetings in those companies as well. Yet another reason of holding same day meetings could be poor past performance where the high attendance expected in same-day meetings could be beneficial to harness the expertise of as many directors as possible to chalk out a strategy of financial turnaround.

Thus by relating the characteristics of companies with the incidence of same-day Board and Audit meetings we can draw some reasonable inference about compliance in sprit of the regulations by a company. It we find that companies that hold same day board meetings do not have busier directors and are not poorly performing and do not record higher attendance, then we may be justified in inferring that the company may not be complying with the regulations in spirit. This inference will be strengthened if we find that the incidence of same day Board and Audit Committee meetings also correlate with weak governance structures.

Given the above discussion, the empirical analysis conducted in the remainder of the paper proceeds in two parts. Part1 of the analysis deals with question of compliance in letter and focuses on the explicit specifications, or hard regulations, of Clause 49 with respect to the frequency and gap of Board meetings and Audit Committee meetings. In particular, the analysis examines the following questions:

a. What is the extent of compliance, or alternatively violations, of the CL49 Regulations with respect to frequency and interval of Board meetings and Audit Committee meetings?
b. Has compliance increased, or alternatively, has violation decreased over the years?
c. Who violates governance norms?
d. Is it related to size, ownership, governance structures and financial performance of companies?

Part 2 of the analysis deals with the notion of compliance in spirit and focuses on the incidence of same-day Board and Audit committee meetings. In particular, the analysis tries to answer the following questions:

a. What is incidence of companies holding Board and Audit Committee meetings on the same day?
b. Has the incidence of same-day Board and Audit Committee meetings decreased over the years?
c. What are the characteristics of companies which hold Board and Audit Committee meetings on the same day?
d. Is this related to size, ownership, governance structure, busyness of directors, and financial performance of companies?

3.0 Data and Sample for Empirical Analysis

The primary data for this analysis are the dates of Board and Audit Committee meetings. We hand collect this data from the Corporate Governance Report contained in the Annual Reports of companies. We use the SANSCO database for this purpose which contains soft copies of the Annual Reports of all the listed companies.

For each company we collect (a) the total number of Board and Audit Committee meetings held within a financial year and (b) the dates on which these meetings were held. We collect the meeting dates for the first six meetings to strike a balance between coverage and data collection effort. As the later section shows, in 2012 about 70 percent of the companies held a maximum of six Board meetings and 85 percent of the companies held a maximum of six Audit Committee meetings. Thus our sample of meeting dates is likely to provide a good coverage of the total meetings held by companies. Apart from meetings dates, we require data on the governance structure of companies like size and composition of the Board and the Audit Committee, presence of inside (i.e. executive) directors in the Audit Committee, total directorships held by directors, attendance of directors in Board meetings and Annual General Body meetings. We again hand collect these data from the Corporate Governance Reports of companies.

Apart from meeting dates and governance characteristics, we require information on the ownership structure, accounting and stock market performance of the companies. We source theses data from the PROWESS database created by the Center for Monitoring Indian Economy (CMIE). Both SANSCO and Prowess have been widely used in empirical studies on India that deal with finance and governance questions.

The sample for our analysis consists of the top 500 companies listed on the Bombay Stock Exchange and covers the financial years from 2006[5] to 2012. These companies accounted for over 95 percent of total stock market capitalization as on March 31, 2012. Of these 500 companies, 317 are private companies, 67 are government companies and the remaining 61 are foreign companies. With respect to the period of our analysis, since the first modification of the Clause 49 Regulations came into force from January 1, 2006, our sample is well suited to trace the extent of regulatory compliance since inception of the modified norms. The end year of the sample, i.e., 2012, represents the last year when complete data on the listed companies were available at the time of writing this paper[6].

There are some companies for which we are unable to obtain their Annual Reports from the SANSCO database in some financial years. This missing data cause our sample to be an unbalanced panel. However, the missing companies are random and therefore there is no selection bias. In total we have 3276 company-year observations. Table 1 gives the extent of coverage of our sample over the different years.

4.0 Empirical Analysis: Compliance in Letter

In this section we empirically analyze the notion of compliance in letter. For this, we examine the extent of compliance with the explicit regulations of Clause 49 with respect to the minimum number of Board meetings and Audit Committee meetings and the maximum gap allowed between them. Following this documentation, we try to relate the extent of compliance to the ownership and governance structure of the companies.

[5] The financial year 2006 covers the period from April 1, 2005 to March 31, 2006.

[6] It usually takes between six to nine months from end of a financial year for all companies to make available their Annual Reports and their subsequent incorporation into databases.

4.1 Stylized Facts: Number and Interval of Board and Audit Committee Meetings

Number of meetings

Summary statistics on the number of Board meetings are given in Table 2(a). Taking the entire period, the mean number of meetings held in a financial year is seven and the median is six. The distribution is right skewed suggesting that there are some companies which hold large number of meetings. The 75 percentile value is 8, which shows that three-fourths of the companies held up to a maximum of eight meetings within a financial year, well above that required under the Clause 49 regulations.

Table 2(b) gives the frequency distribution of companies by the number of Board meetings held within a financial year. The distribution is reported for all the years combined, as well as for the year 2006 and 2012 to see the changes from the beginning to the terminal year. All companies are found to be compliant with the Clause 49 regulations with respect to the number of Board meetings save some minor non-compliance (three companies) between 2006 and 2012. Taking the entire sample period, about 85 percent of companies held more than four meetings, about 40 percent held more than six meetings and about 14 percent held more than 10 meetings in a year.

However, one characteristic that is very noticeable between 2006 and 2012 is leftward shift of the distribution of number of meetings with higher concentration around the regulation-prescribed limit. In 2006, the starting year of the implementation of the modified Clause 49 regulations, 12 percent of the companies held exactly four meetings. By 2012, this figure had doubled to 24 percent. Similarly, the percentage of companies holding five meetings had increased from 16 percent to 27 percent. Recall that holding five Board meetings may be necessary to comply with the interval restrictions between Board meetings within a year. Put in this context, by 2012, the number of Board meetings held by companies was just about enough to comply with the Clause 49 regulations.

Tables 3(a) and 3(b) present the corresponding statistics for Audit Committee meetings. The average number of Audit Committee meetings held is five. The mean is same as the median suggesting the distribution of number of Audit Committee meetings is more symmetric compared to Board meetings. Surprisingly, the minimum value of Audit Committee meetings is zero, indicating that there are companies in our sample which did not hold *any* Audit Committee meetings within a financial year.

Table 3(a) gives the distribution of companies by number of Audit Committee meetings. Taking the entire period as a whole, as many as 76 companies—or more strictly, company-year observations—that did not comply with the Clause 49 regulations. However, by 2012 the extent of non-compliance has reduced to six companies or just above one percent of our sample.

Notable in the context of Audit Committee also, is the shifting of the number of Audit Committee meetings towards the prescribed regulatory minimum. While in the year 2006, 40 percent of the companies held exactly four Audit Committee meetings, by 2012 this had increased to 51 percent. Interesting, unlike Board meetings, the percentage of companies holding exactly five meetings had reduced from 23 percent in 2006 to 18 percent by 2012. Recall that the interval restrictions for Audit Committee meetings is four months which gives companies greater flexibility in scheduling the meetings without increasing the number of Audit Committee meetings.

4.1.2 Interval between of meetings

As outlined earlier, the Clause 40 regulations stipulate that the maximum gap between successive meetings cannot be more than three months for Board meetings and four months for Audit Committee meetings. Since we have the meeting dates, we can calculate the interval between meetings and then analyze the distribution of companies by different intervals. However, since our primary motivation is to examine compliance, we utilize the calculated intervals to construct a variable called 'violation" which we code as one if the interval exceeds three (four) months for Board (Audit Committee) meetings. We then count the number of "violations" with a year, separately for Board meetings and Audit Committee meetings.

Since the notion of three (four) months is not very well defined in terms of equivalent days, we use 92 days as the three month gap for Board meetings and 123 days for Audit Committee meetings. This coding gives companies some added flexibility in our analysis for complying with the regulation. Thus the extent of violation that we document in our analysis provides a lower bound to the true violations. Recall that under the newly notified Clause 49 of April 17, 2014, there is no ambiguity in the gap calculation for Board meetings as it has been set to 121 days. However, the ambiguity will continue to remain for Audit Committee meetings.

Table 4(a) presents the summary statistics on the number of interval violations with respect to Board meetings. While the median number of violations is zero, the mean is 0.5 suggesting the companies are violating the interval regulations. The percentile statistics show that at least one fourth of the companies are doing this. This is brought out more clearly by the distribution of companies by the number of violations. Taking the entire period, only 56 percent of the companies complied with the interval regulation, i.e., had zero violations. In other words, 44 percent of the companies were not complying with regulation that the maximum gap of Board meetings be restricted to three months. Of these, 35 percent had made one violation, and eight percent, two or more.

More noticeable is the fact that the percentage of companies complying with the regulation has *decreased significantly* over the years. In 2006, nearly 61 percent of the companies complied with the regulation. By 2012 this has decreased by 17 percentage points to 44 percent. Admittedly, most of the companies had one violation, but the percentage of companies with two or more violations also increased from five percent to nine percent.

Tables 5(a) and 5(b) present the corresponding statistics for Audit Committee meetings. The results here are more reassuring. The median is zero, the mean is nearly zero, as is the seventy percentile value. In the full period, only five percent of the companies had made one violation. The distribution of companies by number of violations in Table 5(b) shows that 92 percent of the companies were compliant in 2006 and this has increased to 94 percent by 2012.

4.2 Regression Analysis: Aggregate Violations and Ownership and Governance Structures

The above analysis indicates that most companies are compliant as far as number of meetings is concerned. There are some violations with respect to number of Audit Committee meetings but that that reduced from 10 percent in 2006 to just above one percent in 2012. However, there are significant violations with respect to intervals between meetings. This is driven large by the violations in intervals of Board meetings. In 2012 more than half of the companies violated the interval regulation with respect to Board meetings and six percent with respect to Audit Committee meetings. As pointed out earlier, there is lower flexibility of scheduling Board meetings compared to Audit Committee meetings because of the asymmetry in the nature of intervals between them. However, the large violations observed for Board meetings consistently over the last seven years could have been avoided by companies by increasing the number of meetings within a year until regulatory changes were made. Violations of existing regulations that pertain to easily verifiable parameters could then point to perception of low threat of enforcement by companies.

We pursue the extent of compliance, or alternatively, the extent of violation further, by examining aggregate violations and relating it with the governance, ownership and other characteristics of the company. For this, we total up the number of violations committed by a company within a financial year with respect to (a) the number of Board meeting, (b) number of Audit Committee meetings, (c) interval violation with respect to Board meetings and (d) interval violation with respect to Audit Committee meetings. For interval violation, we only consider whether the company violated the interval regulation or not and do not consider the number of interval violations. Thus, our aggregate violation variable takes values between 0 and four.

Table 6 presents the distribution of companies by the aggregate number of violations for each financial year during our analysis period. Row percentages are given below the frequencies. In 2006, 53 percent of the companies were complaint with all the Clause 49 regulations with respect to number of meetings as well as interval between meetings. There is a secular decrease in this percentage, save for the year 2010. By 2012, the percentage of fully compliant companies has decreased to just over forty percent. Focusing on the intensity, i.e., number, of violation, most companies violated only one of the four relevant Clause 49 regulations. The percentage of companies with one violation increased from 39 percent in 2006 to 53 percent in 2012. As outlined earlier, most of this violation comes from violation in intervals between Board meetings.

Violation of elementary regulations does not bode well for governance discipline. While some regulations may impose genuine costs on the companies and call for suitable modification, compliance ought to be pursued till the regulations are modified. Violations might indicate weak ownership and governance structures. We therefore try to relate the extent of violation to the ownership and governance structure of the company through regression analysis. We use three dummy variables namely *public, private, foreign* to capture the ownership status of the company and one dummy variable "*group*" to identify if the company is affiliated to a business group. For governance structures we consider board size, board independence and audit committee independence. We proxy independence by the percentages of independent directors serving on the Board and Audit Committee, respectively. Finally, we control the regression for other company characteristics captured by its size (proxied by the log of total assets), and its past financial performance (proxied by one period lagged return to assets). We also use the number of Board meetings as a control variable to account for the fact that the intensity of violation is likely to depend on the number of Board meetings as we have outlined earlier. Descriptions of variable names used for the regression analysis are given in Table 7.

Table 8 gives the mean values of the ownership, governance, and other variables of companies classified by the intensity, i.e. number, of violations. The proportion of public companies falls as the number of violations increases, that proportion of foreign companies remains about the same, while the proportion of private companies increase. This suggests that there are some ownership effects on the intensity of violation. The proportion of group companies also increase when one moves from zero violations (i.e. fully compliant) to one violation, but remains stable thereafter. This suggests that group companies are more likely to violate the regulatory norms compared to the standalone companies. Coming to governance characteristics, Board independence and Audit Committee independence are noticeably lower in companies with higher number of violations. The mean percentage of independent directors falls from 53 percent in companies with zero violations to 46 percent in companies with three violations. The corresponding figures for Audit Committee are 76 percent and 65 percent. Board size decreases with number of violations, but this could be because companies with larger number of violations are also smaller in size. Finally, the number of board meetings is higher for companies with zero violations, a fact which is consistent with our argument that increasing the number of meetings provides added flexibility in meeting the regulation relating to gaps between meetings.

The above discussion suggests that important ownership and governance characteristics are related to the extent of compliance, or alternatively, to the extent of violations made by companies. However, these observations are based on univariate analysis. To examine if these observations hold up when all ownership and governance factors are considered together, we use a multivariate regression framework. Since our dependent variable is a count, count data models like the Poisson or Negative Binomial provide an appropriate modeling framework. However, we can also look at the number of violations as signaling higher levels of non-compliance. In this alternative interpretation, the ordered logit model is a more appropriate choice and we select this for our multivariate analysis. We estimate both a binary logit model (whether the company makes violations or not) and an ordered logit model (the extent of violations).

Table 9(a) presents the results of the binary logit model. The regression coefficients indicate that ownership status of a company is significantly related to the probability of violations. Public companies are 35 percent less likely to violate the relevant Clause 49 regulations compared to foreign companies and private companies (the controlled group), with no significant differences between private and foreign companies. On the other hand, group affiliated companies are 33 percent more likely to violate the Clause 49 regulations with respect to number and interval of Board meetings and Audit Committee meetings compared to standalone companies. However, the coefficients of board independence and audit committee independence, though negative, are not statistically significant in the regression. In contrast, the coefficient on boardsize is highly significant at the two percent level. As the odds ratio suggest, a one member increase in boardsize reduces the relative probability of violation by four percent indicating that larger boards may be able to provide more oversight for meeting basic regulatory stipulations. Finally, as expected, the coefficient on number of board meetings is highly significant. A unit increase in the number of board meetings reduces the relative probability of violation by 25 percentage points.

Table 9(b) reports the results of the ordered logit regression. In general, all the observations made for the binary logit model are confirmed in the ordered logit model. In addition, independence of audit committee becomes weakly significant at the 10 percent level.

To summarize, the regression analysis with respect to compliance in letter with the explicitly specified provisions of Clause 49 regulations with respect to number of and gap between Board meetings and number of and gap between Audit Committee meetings, indicates that the extent of such compliance correlate with ownership status and number of Board meetings. Public companies are much more likely to comply with these explicit regulations. However, the correlation with governance structures is weak. While there is statistically significant correlation with board size, neither board independence nor audit committee independence is significantly related to compliance. We conclude that the extent of compliance in letter, after controlling for ownership effects, is primarily driven by the number of board meetings, given the relatively less flexibility in scheduling Board meetings and the fact that most companies hold the minimum number of Board meetings specified under the Clause 49 regulations.

5.0 Empirical Analysis: Compliance in Spirit

In this section we empirically analyze the notion of compliance in spirit. For this we analyze the incidence of same-day Board and Audit Committee meetings, its evolution over time, and then relate it to company characteristics and characteristics of its directors.

5.1 Stylized Facts: Same-Day Board and Audit Committee Meetings

Table 10(a) gives the distribution of companies by the number of times they held their Board meetings and Audit Committee meetings on the same day in a financial year. The distribution is given for the entire period, the beginning of the sample period i.e., 2006 which is also the beginning of implementation of the modified Clause 49 regulations, and the terminal year of the sample. Taking the entire period, 21 percent of the companies always held their Board meetings and Audit Committee meetings on different days. Put differently, 79 percent of the companies held their Board meetings and Audit Committee meetings at least once on the same day. Of these, 41 percent held their Board and Audit Committee meetings on the same day on at least four occasions, while 18 percent did so on three occasions. The intensity of same day meetings is centered at four, which is also the minimum number of Board meetings and Audit Committee meetings required under Clause 49.

There is remarkable change in the intensity of same-day meetings between 2006 and 2012. In 2006, 28 percent of the companies always held their Board meetings and Audit Committee meetings on different days. By 2012, this percentage is almost halved and accordingly the intensity of same-day meetings increased. Significantly, the increase is not centered around one or two occasions of same-day meetings, but at four. Thus while in 2006, 27 percent of the companies held their Board meetings and Audit Committee meetings on four occasions, by 2012 this has increased to 39 percent. In contrast, the percentage of companies holding same-day meetings on two and three occasions remained fairly stable at 12 percent, 17 percent between 2006 and 2012. The intensity of same-day meetings on five or more occasions also increased, albeit much less significantly, from 7 percent in 2006 to 10 percent in 2012.

Is this change just a onetime one from 2006 to 2012 or is it part of an evolving phenomenon? Table 10(b) gives the same table on the intensity of same-day Board meetings and Audit Committee meetings for every year from 2006 and 2012. What is remarkable is the monotonic decline in the percentage of companies always holding their Board meetings and Audit Committee meetings on different days, and the monotonic increase in the percentage of companies holding same-day meetings on four occasions. In contrast, the percentage of same-day Board meetings and Audit Committee meetings on two or three occasions remain fairly stable at 12 percent and 17 percent through the entire period.

The above stylized fact of same-day Board meetings and Audit Committee meetings indicate that the incidence of same-day meetings has increased continuously and significantly over a long period of seven consecutive years. Remarkably, the increase is concentrated at four, the exact minimum number of Board meetings and Audit Committee meetings required to be held by companies under the Clause 49 regulations. As we have said earlier, there could be valid reasons for holding same-day Board meetings. In particular as we have pointed out, given that a typical director serving on the Board and/or Audit Committee also holds directorships in other companies, many companies might choose to hold most of its Board meetings and Audit

Committee meetings on the same day for higher attendance and accordingly for getting the benefit of expertise of as many directors as possible. However, while this can explain the concentration of the distribution at four, it is not clear why the incidence of *increase* too have to be concentrated at four. If there are other factors behind the increase, then we would expect these factors to be random and accordingly there ought to be changes in the incidence for other numbers as well. However, as Table 10(b) shows, the incidence of same-day meetings for two and three instances has remained remarkably stable over the years. In addition, if the attendance motivation is true, the increase in incidence of same-day meetings must also correlate with the extent of busyness of directors (i.e., the number of multiple directorships) across companies. If these correlation is not strong, then an alternative explanation of the stylized fact that an average company holds Board meetings and Audit Committee meetings to simply meet the regulation in letter, gains strength. In the subsequent section we carry out an analysis to examine the relation between the incidence of same-day Board and Audit Committee meetings and the extent of multiple directorships of directors, the governance structure of the company and its other characteristics.

5.2 Regression Analysis: Relating Same-Day Meetings to Busyness of Directors and Governance Structure of the Company

Table 11 gives the characteristics of the companies classified by the number of times they held their Board meetings and Audit Committee meetings on the same day within a financial year. The first three rows of the table give the distribution of companies according to their ownership status. We observe that the distribution does not change significantly according to the incidence of same-day Board and Audit Committee meetings.[7] Accordingly, ownership status does not appear to be strongly related to the incidence of same-day Board and Audit committee meetings.

Focusing on the number of Board meetings, the average number of Board meetings held by companies that always held their Board and Audit Committee meetings on different days, is higher compared to those companies which held same-day Board and Audit Committee

[7] Note that the higher percentage of private companies across rows in every column of the table mostly reflects the fact that private companies constitute a significant part of our sample. Recall that seventy four percent of our sample constitutes of private companies, with the remaining 26 percent almost equally split between public and foreign companies. For the descriptive analysis, what is more relevant is the variation in the percentage across columns.

meetings. In other words, the higher incidence of same-day meetings is not driven by the fact that such companies held many meetings than the specified regulatory minimum number and therefore some of these meetings were held on the same day. In fact as the next few columns show, companies which held same-day Board and Audit Committee meetings on four, five, and six or more occasions also held five to six Board meetings and Audit Committee meetings in the financial year. This shows that, these companies held *nearly all* of their Board and Audit Committee meetings on the same-day.

Were these companies with higher incidence of same-day meetings also better performing companies in the past so that the need for Board and Audit Committee deliberations were relatively less? As the descriptive statistics show, the one period lagged rate-of-return on assets of these companies are not significantly higher compared to companies which held their Board and Audit Committee meetings on different days. Are these smaller companies, in which the need for Board and Audit Committee oversight is relatively less due to lower complexity of operations of these companies? Again, the descriptive statistics show that the size of these companies is no smaller than those companies with lower incidence of same-day meetings. Focusing on the extent of multiple directorships and the percentage of busy directors on board (i.e. those with three or more, six or more, and ten or more directorships) the average values do not appear to vary significantly with the incidence of same-day Board and audit Committee meetings. Finally, referring to the governance structure of the companies, the Table shows that while board size and audit committee independence does not exhibit any systematic variation, board independence decline with the incidence of same-day Board and Audit Committee meetings while the percentage of companies with an inside director present in the Audit Committee increases significantly.

The above observations are based on univariate analysis which ignores the correlation between the different factors. Tables 12(a) and 12(b) report the regression results which uses a multivariate framework. While Table 12(a) reports the results from a binary logit model that only considers whether the company holds *any* same-day Board and Audit Committee meetings or not, while Table 12(b) contains the result of the ordered logit model which considers the number of times a company held its Board meeting and Audit Committee meeting on the same day in a financial year. In this sense, the ordered logit model provides a more disaggregate analysis. Since the results for both regressions are qualitatively similar, we discuss the results of only the ordered logit model for conserving space[8].

First and foremost, all the six intercepts are significant emphasizing that companies with varying incidence of same-day Board and Audit Committee meetings are significantly different. The significant intercepts imply that there are other factors, beside those incorporated in the regression, that differentiate the companies which hold higher number of same-day meetings. Coming to the explanatory variables, our earlier observation that ownership has no observable relation with the incidence of same-day meetings holds up statistically. The coefficients of the ownership related variables are being far from significant. Similarly, the percentage of busy directors—those holding three or more directorships— is nowhere near significance. This result is robust to several alternative definition of busy directors namely those with six and ten multiple directorships, or that defined by the average number of directorships held by the directors. Thus there is no statistical evidence that scheduling same-day Board and Audit Committee meetings could be to accommodate the presence of busy directors. Similarly the coefficient on the past performance variable, *lag_roa*, does not attend statistical significance. This suggests that same-day Board and Audit Committee meetings is not related with the necessity to get input from as many directors as possible to address below average performance of the company.

In contrast, the coefficient on the *number of board meetings* is negative and highly significant indicating that companies holding lower number meetings are <u>more likely</u> to hold their Board meetings and Audit Committee meetings on the same day. Similarly, the coefficient of *size* is negative and highly significant suggesting that *smaller* companies are also <u>more likely</u> to hold their Board meetings and Audit Committee meetings on the same day. The associated odd ratios indicate that the relative probability of same-day meetings increase by about 14 percent[9] as the number of Board meetings fall by one. Focusing on the variables that describe the governance structure of companies, the incidence of same-day Board and Audit Committee meetings is

[8] The binary model confirms that even if we ignore the finer categorization of companies according to the incidence of same-day meetings, these companies as a whole, are different from those decide to hold their Board and Audit Committee meetings on different days.

[9] ((1/odds ratio) – 1)

negatively related to board size and board independence. A decline line in board size and board independence increases the probability of holding same-day Board and Audit Committee meetings. The coefficient on Audit Committee independence as captured by the percentage of independent directors in the Audit Committee is not significant in the regression. However, the dummy variable capturing the presence of an inside director in the Audit Committee is highly significant. The odds ratio indicates that presence of an inside directors increases the relative probability of holding a same-day meeting by as much as 34 percent.

Finally, does holding same-day Board and Audit Committee meetings lead to significant increase in the attendance of directors in these meetings? The Corporate Governance Report contains the attendance details of every director in each Board meeting and in the Annual General Meeting of the company. Unfortunately, the attendance record of directors in Audit Committee meetings is not separately available. However, if Board and Audit Committee meetings were held on the same day then it is very likely that a director will attend both meetings. Accordingly, the attendance performance of directors in Board meetings should closely mirror their attendance in Audit Committee meetings. For this analysis we consider only the attendance record of the outside (or non-executive) independent directors since the scheduling of same-day Board and Audit Committee meetings ought to be driven by them rather than the availability of inside (or executive directors) who are most likely to be present anyway.

Table 13 given the mean attendance of independent directors in Board meetings and Annual General meeting in companies classified by the incidence of same-day Board and Audit Committee meetings. The percentage of Board meetings attended does not increase with the incidence of same-day meetings. The percentage actually declines by one-and-half percentage points from companies with no same-day Board and Audit Committee meetings to companies with four same-day Board and Audit Committee meetings. The Table also reports the attendance of directors in Annual General meeting. Though this may appear to be unrelated to the incidence of same-day meetings, if a company scheduled same-day Board and Audit Committee meetings in order to ensure that its directors were able to attend most of them, then it is reasonable to assume that these directors were also more likely to the Annual General meeting of the company. However, as the figures in Table 13 indicate, the rate of attendance of Annual General Meeting does not vary significantly with the incidence of same-day Board and Audit Committee meetings.

To summarize, the regression results indicate that neither poor past financial performance nor the extent of busyness of directors correlates with the incidence of same-day Board and Audit Committee meetings. Instead, smaller size companies and companies holding less number of meetings are more likely to hold same-day Board and Audit Committee meetings. The incidence of same-day meetings also correlates strongly with poor governance structures captured by lower board size, lower percentage of independent directors on the Board and the presence of inside directors in Audit Committees. Finally, the incidence of same-day Board and Audit Committee meetings is not reflected in higher attendance of Board and Audit Committee meetings and does not correlate with higher attendance of Annual General meeting.

6.0 Conclusion

This paper analyzed two notions of compliance, compliance in letter and compliance in spirit, with respect to Clause 49 regulations on Board and Audit Committee meetings. The analysis was carried out using the top 500 companies listed on the Bombay Stock Exchange and covered a long period of 2006 to 2012. The year 2006 represents the first year when the modified version of Clause 49 first came into effect.

In the notion of compliance in letter the paper analyzed the extent of compliance with the explicit provisions of Clause 49 regarding the minimum number of Board meetings and Audit Committee meetings to be held within a financial year, as well as the maximum gap that is allowed between meetings of each type. The analysis show that compliance in letter is high with almost all companies holding the minimum number of four Board meetings and four Audit Committee meetings as required under the regulation. However, compliance is significantly lower with respect to the interval between meetings, but this is driven mostly by violations in interval between Board meetings for which the specified maximum gap is three months compared to the gap of four months specified for Audit Committee meetings. In the newly notified Clause 49 regulations of April 17, 2104 both these gaps have been harmonized to four months. This should significantly increase the flexibility of companies in scheduling their Board meetings and is expected to result in higher compliance of the regulation relating to interval between Board meetings. Accordingly, overall compliance in letter should become high as it should be expected.

In the notion of compliance in spirit the paper analyzed the incidence of same-day Board and Audit Committee meetings. The analysis of the incidence of same-day meetings indicate that, over the entire sample period of seven years, nearly forty percent of the companies held their Board and Audit Committee meetings on the same day on at least four occasions. The incidence of same day meetings is centered at four which is also the minimum number of Board meetings and Audit Committee meetings required under Clause 49. There is also a significant increase in the incidence of same-day meetings between 2006 and 2012. Remarkably, this increase is also concentrated at four. Notwithstanding the fact that companies may have valid reasons for holding same-day Board and Audit Committee meetings, it is not clear why the incidence as well as the increase in incidence of same-day Board and Audit Committee meetings should be centered exactly at the regulatory minimum requirement of four Board meetings and four Audit Committee meetings. The regression analysis indicates that the incidence of same-day Board and Audit Committee meetings does not correlate with poor past performance and the busyness of directors which could be some of the major drivers of same-day Board and Audit Committee meetings. Instead the incidence of same-day meetings correlates strongly with poor governance structures captured by lower board size, lower percentage of independent directors on the Board and the presence of inside directors in Audit Committees. Finally, holding of same-day Board and Audit Committee meetings is not reflected in higher attendance by directors in Board and Audit Committee meetings and Annual General meeting.

Taking all these observations together, the empirical analysis suggest an alternative interpretation namely, that a large number of companies may be holding their Board and Audit Committee meetings just to meet compliance requirements in letter but not in spirit. Admittedly, this inference is indirect but the observed empirical regularities lend strength to this inference. The way out probably is not making an explicit regulation to avoid same-day Board and Audit Committee meetings, but to impress on the companies the importance of these meetings and then let these companies choose the right balance keeping in mind the costs and benefits. A systemic analysis and dissemination of meeting dates may make companies aware that there is regulatory over sight in the way compliance to Board and Audit meetings is being currently achieved.

REFERENCES

Prowess, Center for Monitoring Indian Economy (CMIE), Mumbai, INDIA.
http://www.cmie.com/

Sansco Services - Annual Reports Library Services, Mumbai, INDIA.
http://www.sansco.net/?linkProvidedBy=WANDInc

Securities Exchange Board of India (SEBI): SMDRP/POLICY/CIR-10/2000, February 21, 2000.
http://www.sebi.gov.in/sebiweb/home/list/1/7/0/0/Circulars

Securities Exchange Board of India (SEBI):SEBI/CFD/DIL/CG/1/2004/12/10, October 29, 2004.
http://www.sebi.gov.in/sebiweb/home/list/1/7/0/0/Circulars

Securities Exchange Board of India (SEBI): CIR/CFD/POLICY CELL/2/2014, April 17, 2014.
http://www.sebi.gov.in/sebiweb/home/list/1/7/0/0/Circulars

Table 1: Sample Size

	Companies with data on Board and Audit Committee Meetings		Companies with data on Board Meetings		Companies with data on Audit Committee Meetings	
FY	Frequency	Percent	Frequency	Percent	Frequency	Percent
2006	438	13.49	445	13.58	438	13.45
2007	474	14.59	477	14.56	475	14.58
2008	458	14.10	459	14.01	460	14.12
2009	452	13.92	458	13.98	452	13.88
2010	482	14.84	482	14.71	482	14.80
2011	482	14.84	484	14.77	482	14.80
2012	462	14.22	471	14.38	468	14.37
Total	3248	100.00	3276	100.00	3257	100.00

Table 2(a): Summary Statistics of Number of Board Meetings

Minimum	5 Pctl	25 Pctl	Median	75 Pctl	95 Pctl	Maximum	Mean	Std Dev	Mode
1	4	5	6	8	14	23	7.24	3.82	5

Table 2(b): Distribution of Companies by Number of Board Meetings

	All Years		2006		2012	
No. of Board Meetings	No. of Companies	%	No. of Companies	%	No. of Companies	%
Less than 4	3	0.10	0	0.00	0	0.00
4	519	14.51	52	11.69	111	23.56
5	708	21.61	70	15.73	128	27.17
6	647	18.09	88	19.90	85	18.04
7	407	12.42	66	14.83	39	8.28
8	251	7.66	46	10.34	24	5.09
9	173	5.28	23	05.17	20	4.24
10	119	3.93	18	4.04	14	2.97
More Than 10	449	13.70	82	18.42	50	10.61
Total	3276	100	445	100	471	100

Table 3(a): Summary Statistics of Number of Audit Committee Meetings

Minimum	5 Ptcl	25 Pctl	Median	75 Pctl	95 Pctl	Maximum	Mean	Std Dev	Mode
0	4	4	5	6	9	15	5.22	1.87	4

Table 3(b): Distribution of Companies by Number of Audit Committee Meetings

	All Years		2006		2012	
No. of Audit Committee Meetings	No. of Companies	%	No. of Companies	%	No. of Companies	%
Less Than 4	76	2.33	43	9.82	6	1.28
4	1379	42.34	175	39.95	238	50.85
5	815	25.02	100	22.83	85	18.16
6	420	12.89	51	11.64	59	12.60
7	197	5.57	30	6.84	27	5.77
8	124	3.80	8	1.82	21	3.70
9	76	2.33	11	2.51	5	1.07
10	60	1.84	8	1.82	9	1.58
More Than 10	85	2.61	2	0.45	19	4.06
Total	3257	100	438	100	468	100

Table 4(a): Summary Statistics of Board Meeting Interval Violations (All years)

Minimum	5 Ptcl	25 Pctl	Median	75 Pctl	95 Pctl	Maximum	Mean	Std Dev	Mode
0	0	0	0	1	2	4	0.49	0.67	0

Table 4(b): Distribution of Companies by Number of Interval Violations for Board Meetings

	All Years		2006		2012	
No. of Violations	No. of Companies	%	No. of Companies	%	No. of Companies	%
0	1852	56.53	277	60.87	207	43.94
1	1159	35.37	143	31.43	222	47.13
2	231	7.05	24	5.27	39	8.28
3	32	1.00	1	0.22	3	0.63
4 or more	2	0.06	0	0.00	0	0.00
Total	3276	100	455	100	471	100

Table 5(a) Summary of Audit Meeting Interval Violations

Minimum	5 Ptcl	25 Pctl	Median	75 Pctl	95 Pctl	Maximum	Mean	Std Dev	Mode
0	0	0	0	0	1	3	0.08	0.34	0

Table 5(b): Distribution of Companies by No. of Interval Violations for Audit Committee Meetings

	All Years		2006		2012	
No. of Violations	No. of Companies	%	No. of Companies	%	No. of Companies	%
0	3026	92.91	398	90.86	441	94.23
1	174	5.34	34	7.76	19	4.06
2	54	1.66	6	1.11	8	1.70
3	3	0.10	0	0.00	0	0.00
Total	3257	100	438	100	468	100

Table 6: Distribution of Companies by Intensity of Violation of CL49 Regulations on Board and Audit Meetings

FY	Number of Violations				
	0	**1**	**2**	**3**	**Total**
2006	233	170	26	9	438
	53.20	38.81	5.94	2.05	
2007	242	191	39	2	474
	51.05	40.30	8.23	0.42	
2008	236	191	25	6	458
	51.53	41.70	5.46	1.31	
2009	230	211	11	0	452
	50.88	46.68	2.43	0.00	
2010	313	163	6	0	482
	64.94	33.82	1.24	0.00	
2011	239	221	22	0	482
	49.59	45.85	4.56	0.00	
2012	196	246	19	1	462
	42.42	53.25	4.11	0.22	
Total	1689	1393	148	18	3248

Table 7: Variable Names and Description

Variable Name	Description
public	Dummy variable, equals 1 if company is govt. owned
private	Dummy variable, equals 1 if company is privately owned
foreign	Dummy variable, equals 1 if company is foreign owned
group	Dummy variable, equals 1 if company belongs to a (private) business group
boardsize	Board size, measured by the total number of directors on the Board
bindep	Board independence, measured by the percentage of independent directors on the Board
acindep	Audit Committee independence, measured by the percentage of independent directors on the Audit Committee
no of board meetings	Number of Board meetings held within a financial years
no of audit meetings	Number of Audit Committee meetings held within a financial years
lag_roa	Lagged return on assets, measured by the return on assets in the previous year
size	Size of the company, measured by the logarithm of total assets
tldirsp_indepdir	Total directorships held by independent directors on the Board (mean across independent directors)
pbusy3_indepdir	Percentage of busy independent directors, measured by total number of independent directors having three or more directorships divided by total number of independent directors
pbusy6_ indepdir	Percentage of busy independent directors, measured by total number of independent directors having six or more directorships divided by total number of independent directors
pbusy10_ indepdir	Percentage of busy independent directors, measured by total number of independent directors having ten or more directorships divided by total number of independent directors
Percentage of Board Meetings Attended by Independent Directors	Percentage of Board meetings attended by independent directors (mean across independent directors
Percentage of Independent Directors who Attended the Annual General Meeting	Percentage of independent directors who attended the Annual General Meeting of the company

Table 8: Company Characteristics and Intensity of Violation of CL49 Regulations on Board and Audit Meetings: Descriptive Statistics

		No. of Violations			
		0	1	2	3
Public	Mean	0.19	0.07	0.08	0.06
Private	Mean	0.70	0.80	0.82	0.83
Foreign	Mean	0.11	0.13	0.10	0.11
Group	Mean	0.45	0.59	0.60	0.59
Boardsize	Mean	9.37	9.25	9.01	8.22
Bindep	Mean	53.41	53.24	51.67	45.87
Acindep	Mean	75.70	79.06	75.95	65.00
no of board meetings	Mean	8.33	5.96	6.84	6.28
lag_roa	Mean	0.14	0.15	0.14	0.15
Size	Mean	10.54	10.16	10.17	9.25

Table 9(a): Company Characteristics and Probability of Violation of CL49 Regulations on Board and Audit Meetings: Binary Logit Model

Analysis of Maximum Likelihood Estimates				
Parameter	Estimate	Standard Error	Wald Chi-Square	Pr > ChiSq
Intercept	2.0812	0.3972	27.4562	<.0001
public	-0.4272	0.1910	5.0001	0.0253
foreign	-0.0699	0.1517	0.2126	0.6447
group	0.2876	0.1062	7.3412	0.0067
boardsize	-0.0370	0.0161	5.2369	0.0221
bindep	-0.00386	0.00325	1.4057	0.2358
acindep	-0.00295	0.00223	1.7597	0.1847
lag_roa	-0.1266	0.4030	0.0987	0.7534
no of board meetings	-0.2904	0.0207	195.9540	<.0001
size	0.0482	0.0350	1.8968	0.1684
Log Likelihood Ratio	423.04			<.0001

Odds Ratio Estimates			
Effect	Point Estimate	95% Wald Confidence Limits	
public	0.652	0.449	0.949
group	1.333	1.083	1.642
foreign	0.932	0.693	1.255
lag_roa	0.881	0.400	1.941
boardsize	0.964	0.934	0.995
bindep_1	0.996	0.990	1.003
acindep	0.997	0.993	1.001
no of board meetings	0.748	0.718	0.779
size	1.049	0.980	1.124

Table 9(b): Company Characteristics and Probability of Violation of CL49 Regulations on Board and Audit Meetings: Ordered Logit Model

Analysis of Maximum Likelihood Estimates				
Parameter	Estimate	Standard Error	Wald Chi-Square	Pr > ChiSq
Intercept 3	-3.7168	0.5084	53.4579	<.0001
Intercept 2	-1.0737	0.3926	7.4775	0.0062
Intercept 1	2.1346	0.3871	30.4049	<.0001
public	-0.4061	0.1883	4.6506	0.0310
group	0.2917	0.1032	7.9918	0.0047
foreign	-0.0705	0.1477	0.2279	0.6331
lag_roa	-0.1335	0.3913	0.1164	0.7330
boardsize	-0.0408	0.0157	6.7679	0.0093
bindep	-0.00427	0.00316	1.8248	0.1767
acindep	-0.00363	0.00215	2.8342	0.0923
no of board meetings	-0.2818	0.0203	193.1812	<.0001
size	0.0470	0.0340	1.9124	0.1667
Likelihood Ratio	405.17			<.0001

Odds Ratio Estimates			
Effect	Point Estimate	95% Wald Confidence Limits	
public	0.666	0.461	0.964
group	1.339	1.094	1.639
foreign	0.932	0.698	1.245
lag_roa	0.875	0.406	1.884
boardsize	0.960	0.931	0.990
bindep	0.996	0.990	1.002
acindep	0.996	0.992	1.001
no of board meetings	0.754	0.725	0.785
size	1.048	0.981	1.120

Table 10(a): Distribution of Companies by Intensity of Same Day Board and Audit Committee Meetings

Snapshots: All Years, 2006 and 2012

	All Years		2006		2012	
No. of times BM and Am on same day	No. of Companies	%	No. of Companies	%	No. of Companies	%
0	675	20.78	121	27.62	68	14.71
1	236	07.26	43	09.81	35	07.57
2	391	12.03	52	11.87	52	11.15
3	582	17.91	74	16.89	80	17.31
4	1037	31.92	118	26.94	180	38.96
5	297	09.14	26	05.93	41	08.87
6 or more	30	00.92	4	00.91	6	01.30
Total	3248	100	438	100	462	100

Table 10(b): Distribution of Companies by Intensity of Same Day Board and Audit Committee Meetings: 2006-2012

FY	No. of Times Board and Audit Meetings Held on Same Dates							
	0	1	2	3	4	5	>= 6	All Companies
2006	121 27.62	43 09.81	52 11.87	74 16.89	118 26.94	26 5.93	4 0.91	438
2007	113 23.83	46 09.70	57 12.02	89 18.77	127 26.99	39 08.22	3 0.63	474
2008	104 22.70	34 07.42	69 15.06	99 19.61	117 27.54	32 06.98	3 0.65	458
2009	91 20.13	27 05.97	47 10.39	92 20.35	139 30.75	52 11.50	4 0.88	452
2010	97 20.12	24 04.97	60 12.44	82 17.01	156 32.36	56 11.61	7 1.45	482
2011	81 16.80	27 5.60	54 11.20	66 17.69	200 37.49	51 10.58	3 0.62	482
2012	68 14.71	35 7.57	52 11.15	80 17.31	180 38.96	41 8.87	6 1.30	462
Total	675 20.78	236 7.26	391 12.03	582 17.91	1037 31.92	297 9.14	30 00.92	3248

Table 11: Company Characteristics and Intensity of Same Day Board and Audit Meetings: Descriptive Statistics

		No. of Times Board and Audit Meetings Held on Same Day						
		0	1	2	3	4	5	>= 6
public	Mean	0.16	0.17	0.22	0.10	0.08	0.10	0.17
private	Mean	0.71	0.74	0.68	0.77	0.79	0.78	0.66
foreign	Mean	0.13	0.09	0.10	0.13	0.13	0.12	0.17
group	Mean	0.47	0.53	0.47	0.54	0.55	0.53	0.50
no of board meetings	Mean	8.37	9.61	8.61	7.08	5.23	6.16	6.63
no of audit meetings	Mean	5.53	5.63	5.63	5.11	4.72	5.47	6.57
lag_roa	Mean	0.15	0.12	0.14	0.15	0.15	0.15	0.16
size	Mean	10.32	10.73	10.68	10.31	10.05	10.02	10.65
tldirsp_indepdir	Mean	4.89	4.66	4.63	5.00	5.23	4.71	4.73
pbusy3_indepdir	Mean	33.12	34.56	33.95	34.70	36.76	33.63	34.01
pbusy6_ indepdir	Mean	20.21	20.24	18.93	20.40	21.84	18.46	19.96
pbusy10_ indepdir	Mean	10.38	8.77	8.57	10.23	10.92	9.43	10.79
boardsize	Mean	9.35	9.42	9.40	9.19	9.23	8.98	9.63
bindep	Mean	54.20	54.08	53.85	52.43	52.84	51.90	51.48
acindep	Mean	75.76	77.61	74.38	78.09	78.69	77.22	69.61
inside director in AC	Mean	0.20	0.24	0.24	0.25	0.23	0.27	0.27

Table 12(a): Company Characteristics and Probability of Same Day Board and Audit Meetings: Binary Logit Model

Analysis of Maximum Likelihood Estimates				
Parameter	Estimate	Standard Error	Wald Chi-Square	Pr > ChiSq
Intercept	4.1445	0.4669	78.7828	<.0001
public	0.2195	0.2059	1.1363	0.2864
group	0.0813	0.1360	0.3574	0.5500
foreign	-0.1444	0.1930	0.5600	0.4543
pbusy3_indepdir	0.00610	0.00324	3.5401	0.0599
no of board meetings	-0.0632	0.0133	22.6656	<.0001
lag_roa	-0.1166	0.4903	0.0566	0.8120
size	-0.1466	0.0394	13.8470	0.0002
boardsize	-0.0265	0.0186	2.0423	0.1530
bindep	-0.0148	0.00407	13.1672	0.0003
acindep	0.00284	0.00267	1.1321	0.2873
inside director in AC	0.2445	0.0711	11.8064	0.0006
Likelihood Ratio	89.24			<.0001

Odds Ratio Estimates			
Effect	Point Estimate	95% Wald Confidence Limits	
public	1.245	0.832	1.865
group	1.085	0.831	1.416
foreign	0.866	0.593	1.263
pbusy3_indepdir	1.006	1.000	1.013
no of board meetings	0.939	0.915	0.964
lag_roa	0.890	0.340	2.326
size	0.864	0.799	0.933
boardsize	0.974	0.939	1.010
bindep	0.985	0.978	0.993
acindep	1.003	0.998	1.008
inside director in AC	1.631	1.234	2.155

Table 12(b): Company Characteristics and Probability of Same Day Board and Audit Meetings: Ordered Logit Model

Analysis of Maximum Likelihood Estimates				
Parameter	Estimate	Standard Error	Wald Chi-Square	Pr > ChiSq
Intercept 6	-1.6831	0.3760	20.0324	<.0001
Intercept 5	0.8105	0.3276	6.1226	0.0133
Intercept 4	2.7865	0.3285	71.9588	<.0001
Intercept 3	3.6014	0.3314	118.1313	<.0001
Intercept 2	4.2086	0.3340	158.7900	<.0001
Intercept 1	4.6195	0.3360	189.0657	<.0001
public	0.0434	0.1488	0.0851	0.7705
group	-0.0420	0.0934	0.2022	0.6530
foreign	-0.2042	0.1325	2.3751	0.1233
pbusy3_ind1	0.00178	0.00233	0.5828	0.4452
no of board meetings	-0.1271	0.0119	114.5600	<.0001
lag_roa	0.1913	0.3388	0.3190	0.5722
size	-0.1294	0.0285	20.5938	<.0001
boardsize	-0.0233	0.0133	3.0766	0.0794
bindep	-0.0109	0.00294	13.7690	0.0002
acindep	0.000053	0.00192	0.0008	0.9779
inside director in AC	0.1469	0.0464	10.0082	0.0016
Likelihood Ratio	275.68			<.0001

Odds Ratio Estimates			
Effect	Point Estimate	95% Wald Confidence Limits	
public	1.044	0.780	1.398
group	0.959	0.798	1.152
foreign	0.815	0.629	1.057
pbusy3_ind1	1.002	0.997	1.006
no of board meetings	0.881	0.860	0.901
lag_roa	1.211	0.623	2.352
size	0.879	0.831	0.929
boardsize	0.977	0.952	1.003
bindep	0.989	0.983	0.995
acindep	1.000	0.996	1.004
inside director in AC	1.341	1.118	1.609

Table 13: Attendance of Board Meetings and Annual General Meeting

		No. of Times Board and Audit Meetings Held on Same Day						
		0	1	2	3	4	5	6
Percentage of Board Meetings Attended by Independent Directors	Mean	75.34	74.85	74.16	73.92	73.76	73.12	73.24
Percentage of Independent Directors who Attended the Annual General Meeting	Mean	61.42	59.81	61.20	62.46	62.82	61.92	60.40

Box 1: Functions of the Board of Directors

Key Functions of the Board

(Section ID 2. of the newly notified Clause 49 as per SEBI Circular CIR/CFD/POLICY CELL/2/2014

The board should fulfil certain key functions, including:

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

(Section ID 3. of the newly notified Clause 49 as per SEBI Circular CIR/CFD/POLICY CELL/2/2014)

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.

.

Box 1: Functions of the Board of Directors (Cont.)

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 judgement on corporate affairs.

h. Boards should consider assigning a sufficient number of non-executive Board members capable of exercising independent judgement 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.

Box 2: Role of Audit Committee (2004)

Role of Audit Committee

(Section II D of Clause 49 as per SEBI Circular SEBI/CFD/DIL/CG/1/2004/12/10)

The role of the audit committee shall include the following:

1. 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.

2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.

3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.

4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:

a. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956
b. Changes, if any, in accounting policies and practices and reasons for the same
c. Major accounting entries involving estimates based on the exercise of judgment by management
d. Significant adjustments made in the financial statements arising out of audit findings
e. Compliance with listing and other legal requirements relating to financial statements
f. Disclosure of any related party transactions
g. Qualifications in the draft audit report.

5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval

6. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.

7. 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.

8. Discussion with internal auditors any significant findings and follow up there on.

9. 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.

10. 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.

11. 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.

12. To review the functioning of the Whistle Blower mechanism, in case the same is existing.

13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Box 3: Role of Audit Committee (2014)

Role of Audit Committee

(Section III D of Clause 49 as per SEBI Circular CIR/CFD/POLICY CELL/2/2014)

The role of the Audit Committee shall include the following:

1. 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;

2. Recommendation for appointment, remuneration and terms of appointment of auditors of the company;

3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors;

4. Reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:

   a. 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

   b. Changes, if any, in accounting policies and practices and reasons for the same

   c. Major accounting entries involving estimates based on the exercise of judgment by management

   d. Significant adjustments made in the financial statements arising out of audit findings

   e. Compliance with listing and other legal requirements relating to financial statements

   f. Disclosure of any related party transactions

   g. Qualifications in the draft audit report

5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval;

6. Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), 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;

7. Review and monitor the auditor's independence and performance, and effectiveness of audit process;

8. Approval or any subsequent modification of transactions of the company with related parties;

9. Scrutiny of inter-corporate loans and investments;

10. Valuation of undertakings or assets of the company, wherever it is necessary;

11. Evaluation of internal financial controls and risk management systems;

12. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;

Box 3: Role of Audit Committee (2014) (Cont.)

13. 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;

14. Discussion with internal auditors of any significant findings and follow up there on;

15. 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;

16. 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;

17. 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;

18. To review the functioning of the Whistle Blower mechanism;

19. 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;

20. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Box 4. Limits to Multiple Directorships and Committee Memberships: Clause 49 Regulations

2004
(Section I (C) (ii) of Clause 49 as per SEBI Circular SEBI/CFD/DIL/CG/1/2004/12/10)

A director shall not be a member in more than 10 committees or act as Chairman of more than five committees across all companies in which he is a director. Furthermore it should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

2014
(Section II B of Clause 49 as per SEBI Circular CIR/CFD/POLICY CELL/2/2014)
a. A person shall not serve as an independent director in more than seven listed companies.

b. Further, any person who is serving as a whole time director in any listed company shall serve as an independent director in not more than three listed companies.

(Section II D 2 of Clause 49 as per SEBI Circular CIR/CFD/POLICY CELL/2/2014)
A director shall not be a member in more than ten committees or act as Chairman of more than five committees across all companies in which he is a director. Furthermore, every director shall inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.