

# **SEBI (LISTING OBLIGATION AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015**

## **Guidance Note on Board Evaluation**



# Introduction

SEBI vide circular No. SEBI/HO/CFD/CIR/P/2017/004 dated 5<sup>th</sup> January, 2017 issued Guidance Note on Board Evaluation to guide listed entities by elaborating various aspects of Board Evaluation that may help them to improve the evaluation process.

The guidance note covers all major aspects of Board Evaluation including the following:

- a. Subject of Evaluation i.e. who is to be evaluated;
- b. Process of Evaluation including laying down of objectives and criteria to be adopted for evaluation of different persons;
- c. Feedback to the persons being evaluated;
- d. Action Plan based on the results of the evaluation process;



- e. Disclosure to stakeholders on various aspects;
- f. Frequency of Board Evaluation;
- g. Responsibility of Board Evaluation and
- h. Review of the entire evaluation process periodically.

The purpose of the Guidance Note is to educate the listed entities and their Board of Directors about various aspects involved in the Board Evaluation process and improves their overall performance as well as corporate governance standards to benefit all stakeholders.

The main provisions of Companies Act, 2013 and SEBI LODR on Board Evaluation as applicable to listed entities is summarized as under:



## A. Background of Board Evaluation in India:

### 1. Role of the Nomination and Remuneration Committee (NRC):

- To formulate criteria for evaluation of performance of independent directors and the board of directors.
- To carry out evaluation of every director's performance.
- To determine whether to extend or continue the term of appointment of the independent director.



## 2. Role of independent directors:

- a. In the meeting of independent directors of the company.
  - To review the performance of non-independent directors and the Board as a whole.
  - To review the performance of the Chairperson of the company.
  - To assess the quality, quantity and timeliness of flow of information between the company management and the Board.
- b. To bring an objective view in the evaluation of the performance of board and management.



### 3. Evaluation of independent directors:


To evaluate performance of independent directors by the entire board excluding the director being evaluated.

### 4. Disclosure requirements:

A statement indicating the manner in which formal annual evaluation has been made by the Board of its own performance and of the Committees shall be included in the Board report.

## B. Subject of Evaluation

The evaluation of the Board involves multiple levels:

1. Board as a whole
  2. Committees of the Board
  3. Individual Directors and Chairperson (including Chairperson, CEO, Independent Directors, Non-independent directors, etc.)
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## C. Process of Evaluation

1. Identifying the objectives of evaluation
2. Criteria of evaluation: Indicative criteria that may be used for different directors/groups are:
  - a. Board as a whole:
    - a. Structure of the Board
    - b. Meetings of the Board
    - c. Functions of the Board
    - d. Board and management
    - e. Professional development programmes are made available to new and old directors



b. Committees of the Board:

- a. Mandate & Composition of committees of the board
- b. Effectiveness of the Committee
- c. Structure of the Committee and meetings
- d. Independence of the Committee from the Board
- e. Contributions to decisions of the Board.

c. Individual Directors and Chairperson (Including Chairperson, CEO, Directors, Non-Independent Directors etc.,)

- a. General Criteria
- b. Additional criteria for Independent director – Independence and independent views and judgment.
- c. Additional criteria for Chairperson





### 3. Method of Evaluation:

- a. Internal Assessment
- b. Assessment by Experts


### D. Feedback:

The feedback may be provided in one or more of the following ways:

- a. Orally given by Chairman/ external assessor
- b. A written assessment to every member, Board and Committee

### E. Action Plan:

The Board will prepare the Action plan for areas of improvements and review the actions within a specific time.



## **F. Disclosure requirements:**

The disclosure about the manner of formal annual evaluation of the Board, its committees and individual directors is required on an annual basis.

## **G. Frequency of Board Evaluation:**

As per SEBI LODR and Companies Act, the Board Evaluation is required to be done once a year.

## **H. Responsibility:**

The responsibility of Board evaluation lies on different persons depending on the subject of evaluation.

## **I. Review:**

The responsibility of review of the evaluation process lies with the Board of Directors.



## Main provisions with respect to Board Evaluation:

- Provision of Section 134(3) and 178(2) of the Companies Act, 2013 are to be considered with respect to the Board Evaluation.
- Schedule IV: Code for Independent Directors
- CHAPTER II and IV under SEBI LODR deals with respect to Board Evaluation
- Schedule II (PART D)- Role of Nomination And Remuneration Committee



- *Rule 8 (4) of the Companies (Accounts) Rules, 2014* also provides that the listed company and every other public company having a paid up share capital of twenty five crore rupees or more including in its report a statement indicating the manner in which formal annual evaluation has been made by the Board of its own performance and that of its committees and individual directors.
- Schedule V: Corporate Governance Report - Disclosure regarding N & R committee and performance evaluation criteria for Independent directors

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