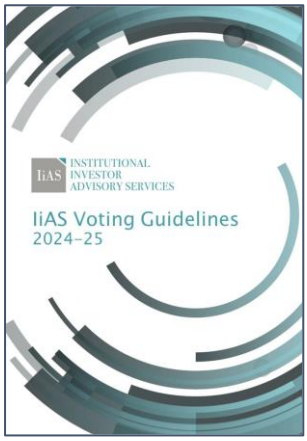
IiAS' stance vis-à-vis legal requirements

This document has been prepared in compliance with SEBI Circular SEBI/HO/IMD/DF1/CIR/P/2020/147 dated 3 August 2020.

Readers should check this link [https://www.iiasadvisory.com/voting-guidelines] periodically for changes and/or updates.



This document should be read in conjunction with IiAS' Voting Guidelines [https://www.iiasadvisory.com/voting-guidelines]

	Description

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* Indicates that IiAS' stance varies from regulations

1. Adoption of accounts

Legal Requirement:
Under Sec 129(2) of the Companies Act, 2013, at every annual general meeting, the Board of Directors of the company shall lay the financial statements for the financial year for adoption by shareholders.

IiAS' stance:
IiAS believes that a comprehensive review of the financials of a company is a critical exercise which often requires first-hand information and proper due diligence. However, there is limited time between receipt of the audited accounts/annual report and the shareholder meeting to comprehensively evaluate the financial statements. Given this constraint, IiAS relies upon the auditors' report on the financial statements. IiAS may also factor in the quality of the audit firm and/or the composition and experience of the audit committee. IiAS will generally recommend voting FOR on the resolution to adopt accounts. However, IiAS may recommend voting AGAINST where – (a) auditors have a qualified opinion on the accounts or internal financial controls; (b) we believe the quality of the audit firm and/or the audit committee are a concern; or (c) emphasis of matters outlined by auditors may that have a material impact on the financials.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. Our voting recommendation depends upon the auditor's report and their commentary thereon. In our assessment of financial statements, we will provide commentary on key financial parameters. If the company has material subsidiaries, the analysis will focus on consolidated financial statements. IiAS will highlight the observations, comments, or qualifications made in the statutory audit report and the secretarial audit report. We raise concerns, wherever relevant, on specific issues that need to be addressed by the company – these could be pertaining to cyber security issues, quantum of losses on account of frauds, or any other non-financial information. For details, please refer to IiAS' Voting Guidelines.

2. Appointment/ re-appointment of auditors

Legal Requirement:
Sec 139 of the Companies Act, 2013, mandates rotation of individual auditors every five years and of the audit firm after a maximum period of ten years (i.e., after two terms of five years each) for listed companies. A cooling-off period of five years is required, to be considered eligible for re-appointment. For banks, NBFCs and Housing finance companies, the RBI mandates auditor rotation every 3 years with a cooling-off period of 6 years. Further, as per Sec 142, the remuneration of the Statutory Auditor should be fixed at a general meeting or in any manner determined at the general meeting. Such remuneration shall include expenses, if any, incurred by the auditor in connection with the audit of the company and any facility extended but shall not include any remuneration paid to the auditor for any other services rendered at the request of the company.
As per per Reg 36 of the SEBI LODR, notice to shareholders for auditor (re)appointment should include an explanatory note regarding details of the fees proposed, basis of recommendation for appointment and the details/credentials of the statutory auditor. Additionally, the total fees paid to the audit network firms for all rendered services at a consolidated level must be disclosed in the annual report.

IiAS' stance:
IiAS will vote on a case-to-case basis on such resolutions considering the following:

- Tenure of audit firm/network (>10 years or 3 years for banks) and tenure of audit partner (must not exceed five years in case of companies)
- Size of the audit firm vis-a-vis the size of the company
- Experience of the audit firm in auditing companies in the same industry or of similar size or complexity
- The firm/partner(s) past track record/reputation
- Affiliation/association of the new firm/partner(s) with the rotated firm and/or the promoter group of the company
- Peer review conducted for the audit firm
- Publicly available information on the audit firm and the audit partner experience
- Quantum, growth and nature of audit fees
- Consulting services provided by network partners of the audit firm

IiAS believes that auditor tenure of over 10 consecutive years (including with group companies/spin offs of larger companies) or affiliation/association of auditors with the rotated firm or promoter group blunts the objectivity of the audit process and the independence of the auditor. Banks usually follow the tenure prescribed by RBI; however, IiAS may make an exception for banks, as the appointment of auditors is vetted or approved by RBI. IiAS believes that the experience and size of the audit firm should be commensurate with the size and complexity of the business. To enhance transparency, IiAS will take into consideration whether details including a brief profile regarding the audit partner and the audit firm is available publicly (e.g., audit firm's website) and disclosed in the notice. In line with best practices and regulation, IiAS will raise concerns in cases where auditor remuneration is not disclosed. Further basis IiAS' interpretation, IiAS will vote against auditor appointments for a term of less than five years in listed companies and 3 years in banks, NBFCs and Housing finance companies.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

3. Casual vacancy caused by auditor resignation

Legal Requirement:
As per Sec 139(8) of the Companies Act, 2013, any casual vacancy in the office of an auditor due to resignation of the auditor must be filled by the Board of Directors within 30 days and should also be approved by the shareholders within three months of the recommendation of the Board and the auditor shall hold the office till the conclusion of the next AGM. In case of Government companies, the casual vacancy must be filled by the Comptroller and Auditor-General of India within 30 days; failing which the board must appoint new auditors within the next 30 days. In line with Schedule III of the SEBI LODR, auditors must clearly articulate their reasons for resigning.

IiAS' stance:
IiAS will decide on such proposals on a case-to-case basis. IiAS will raise concerns if the reasons for auditor resignation are not sufficiently well articulated.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

4. Appointment of auditors in Government companies

Legal Requirement:
Under Section 139(5) of the Companies Act, 2013, the auditor of a Government company or any other company owned or controlled, directly/indirectly, by the Central Government/State Government or both, in respect of a financial year, will be appointed by the Comptroller and Auditor-General of India (CAG) within a period of 180 days from the commencement of the financial year. Such auditor shall hold the office till the conclusion of the AGM. Further, as per Sec 142, the remuneration of the Statutory Auditor should be fixed at a general meeting or in any manner determined at the general meeting. Such remuneration shall include expenses, if any, incurred by the auditor in connection with the audit of the company and any facility extended but shall not include any remuneration paid to the auditor for any other services rendered at the request of the company.
As per per Reg 36 of the SEBI LODR, notice to shareholders for auditor (re)appointment should include an explanatory note regarding details of the fees proposed, basis of recommendation for appointment and the details/credentials of the statutory auditor. Additionally, the total fees paid to the audit network firms for all rendered services at a consolidated level must be disclosed in the annual report.

IiAS' stance:
IiAS generally recommends voting for such resolutions because the auditors are appointed by the CAG and shareholder approval is only required to approve their remuneration. IiAS believes that shareholder approval must be sought for appointment with adequate disclosures on size/experience of the firm including its partners and the proposed audit fees. IiAS will raise concerns in cases where the name of the proposed auditor or the proposed audit fees are not disclosed either in the meeting notice or on stock exchange/company website.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

5. Removal of auditors

Legal Requirement:
Under Sec 140 of the Companies Act, 2013, the auditor appointed may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government.

IiAS' stance:
Since each instance of auditor removal is different in its circumstances and context, IiAS will decide on a case-to-case basis. However, IiAS may not support removal of auditors if:

- the latest audit reports (annual/quarterly) contain adverse remarks (qualification/matter of emphasis) or
- IiAS has reason to believe that the removal will undermine the integrity of the audit review or
- the board has not provided sufficient rationale for seeking the removal of auditors

IiAS carefully weighs the rationale for the removal of auditors, and will, wherever possible, wait for auditors to state their case to shareholders before making a voting recommendation.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

6. Remuneration to cost auditors

Legal Requirement:
Under Sec 148 of the Companies Act, 2013, the remuneration to cost auditors shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders of the company.

IiAS' stance:
IiAS generally recommends voting for such resolutions. In IiAS' observation, remuneration to cost auditors is usually not material.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

7. Dividend declaration

Legal Requirement:
This is governed by Sec 123 of the Companies Act, 2013. Dividend shall be recommended by the Board after consideration and approval of the financial statements. Dividend shall relate to a financial year and shall be declared by the members at the annual general meeting of the company after adoption of the financial statements.

IiAS' stance:
IiAS will generally recommend voting FOR the proposed dividend pay-out (whether on equity or preference shares).
IiAS may advise shareholders to request a higher dividend if:

- Growth in dividend is not commensurate with the improvement in financial performance and/or growth in royalty payments and/or managerial compensation
- The dividend pay-out is consistently lower than industry average
- The company has a large cash balance and has not communicated its use of cash surplus to shareholders

IiAS may, in rare instances, caution investors and recommend voting against where:

- The company's profitability is poor, or the company is routinely reporting losses
- The company has defaulted on any of its loan obligations
- Operating cash flows are weak
- For banks or financial institutions: If the capital adequacy is hovering at the regulatory threshold

IiAS believes that dividend declaration should not favor a specific class of shareholders (e.g., promoters/controlling shareholders). Companies should have a well-articulated dividend policy. IiAS does not favor a high dividend pay-out which may impact the long-term interests of shareholders.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

8. Director attendance*

Legal Requirement:
Under Sec 167 of the Companies Act, 2013, the office of a director is automatically vacated if he absents himself from all the meetings of the Board of Directors held during a period of 12 months with or without seeking leave of absence. The Kotak Committee on Corporate Governance had recommended that if a director does not attend at least 50% of board meetings over 2 financial years on a rolling basis, his/her continuance on the board should be ratified by the shareholders at the next AGM – this was subsequently withdrawn.

IiAS' stance:
IiAS will vote against director appointments/re-appointments based on attendance. IiAS expects 100% attendance, but for directors coming up for re-appointment, accepts a minimum attendance level of 75% in the just concluded year. In case the attendance is below this threshold, IiAS reviews the attendance over the immediately preceding three-year period. IiAS believes directors must use the available technology options (video calls) to attend board meetings, where travel is a constraint. IiAS may make an exception in case of promoters/promoter representatives actively engaged in the business and global heads/CEOs of MNCs if it believes that the presence of the global representative reflects on the company's importance within the group and its ability to access global resources.

IiAS' stance vis-a-vis regulatory requirements:
There is a difference between IiAS' stance and current regulations. IiAS recognizes the regulatory guidance that board meeting attendance is important: IiAS uses board meeting attendance as a measure of directors' engagement with the company. While the regulation only articulates the final measure of removal for non-attendance over a 12-month period, IiAS believes that, from a governance standpoint, to perform their duties with sufficient care and diligence, board members must attend all board meetings.

9. Appointment/ Re-appointment of Independent Directors*

Legal Requirement:

As per Sec 149 of the Companies Act, 2013, an independent director is permitted to be appointed for two consecutive terms of up to five years each. A mandatory cooling-off period of three years is necessary after ceasing as an independent director prior to any further reappointment - the provisions of the Act are applicable prospectively. Effective 1 January 2022, the appointment and reappointment of independent directors can be made only through a special resolution and the appointment should be approved by shareholders within 3-months from the date of appointment or at the ensuing general meeting, whichever is earlier. Additionally, where the special resolution is not approved, the (re)appointment shall still be made if, an ordinary resolution is passed and approval from majority of public shareholders is obtained.

IiAS' stance:

IiAS will recommend voting against the (re)appointment of independent directors in the following cases:

- Directors who have cross linkages with each other across multiple boards (board interlock)
- Those who do not satisfy the eligibility criteria laid down in Section 149(6) of the Act and Regulation (16)(1)(b) of the SEBI LODR
- Directors who have been on the board for more than 10 consecutive years
- Directors who have been on the board of the parent/holding/subsidiary for more than 10 consecutive years
- Former executive/non-executive directors who have not had a cooling-off period (complete detachment from the board, company, and promoter group) for at least three years
- Former executives who are on the board along with their previous supervisors unless these executives have completed at least a five-year cooling period. IiAS will consider the cooling period to have been completed only if there is a complete break-away between the director and the company/group
- Directors who are simultaneously on the board of a large number/percentage of group companies, with a prolonged tenure of >10 years in any of these companies
- Representatives of large shareholders (holding >2% stake) or lenders, even if they are not appointed on the board as a nominee. However, former employees of such shareholders who continue to remain on the board (even after they move on from their employment) may be considered independent. Similarly, directors who were earlier on the board as nominees may be considered independent once the investor has sold its stake. Retired IAS officers /civil servants will also be considered as independent on the board of Public Sector Enterprises
- Directors who have been on the board of at least two companies that have failed on account of poor governance and oversight. While this yardstick may not be always consistently applied – because the history of all directors may not be easily accessible, or we may fail to capture board failures, we believe investors must set higher thresholds for board accountability and begin giving some push back on the (re)appointment of such directors
- Directors who may have business ties with the company, with their firms providing services to the company/group companies irrespective of the extent of the pecuniary relationship
- In instances where IiAS believes that independent directors on board/board committees have not exercised balanced or prudent judgement
- The director carries a reputation risk or has been associated with transactions that IiAS considers to be prejudicial towards minority shareholders in either the company's or other boards or has strong political affiliations
- Relatives of former independent directors being appointed as independent directors without a cooling-off period of at least three years

IiAS believes that shareholder approval for reappointments should be sought on or before the completion of a directors' first term as Independent Director; IiAS shall raise concerns where re-appointments are made after completion of the first term.

IiAS' stance vis-a-vis regulatory requirements:

There is a difference between IiAS' stance and current regulations. Unlike the Act which computes tenure of independent directors beginning 1 April 2014, IiAS computes the tenure on a retrospective basis, i.e., from date of first appointment. Given that independent directors are entrusted with the role of enhancing and protecting the interests of public shareholders; IiAS focuses on the spirit of regulation in assessing the 'independence' of independent directors. IiAS believes that the length of tenure is directly proportional to the degree of independence of a director. IiAS does not favor past associations with the company/group companies (>10 years) and considers directors to be non-independent once they cross a tenure of 10 years from the date of their first appointment. IiAS will no longer support the (re)appointment of independent directors if their aggregate tenure with the company or the group exceeds 10 years anytime during the proposed tenure. IiAS shall also not support the appointment of relatives of former independent directors on the board of the company without a cooling off period of at least 3 years; we recognise that regulations require a cooling off in case of former KMP and employees and IiAS extends the same rationale to former directors – we believe that the company's NRC must disclose the basis of the appointment of relatives/family members over others.

10. Over boarding*

Legal Requirement:
Sec 165 of the Companies Act, 2013, provides that the maximum number of companies in which a person can be appointed as a director should not exceed 20 (out of which not more than 10 should be public companies). Under Reg 17A of the SEBI LODR, a person should not serve as a director/independent director in more than 7 listed companies. If the director is a whole-time director/managing director in any listed company, then he/she cannot serve as an independent director in more than 3 listed companies.

IiAS' stance:
IiAS will consider those holding full-time employment of any nature – including (but not limited to) consultants, managing partners of audit or law firms, company secretaries in practices, cost auditors - as whole-time directorship and will generally vote against such directors holding multiple other directorships. If the board believes such directors have the ability to devote sufficient time to their board responsibilities, it must make this disclosure in the shareholder resolution, along with the basis of such a conclusion.

IiAS' stance vis-a-vis regulatory requirements:
There is a difference between IiAS' stance and current regulations. IiAS believes that full-time employment responsibilities are equivalent to a whole-time directorship. Therefore, IiAS uses the same regulator yardstick to assess over-boarding for those who are not strictly considered whole-time directors but continue to shoulder similar full-time responsibilities.

11. Directors holding more than one executive position*

Legal Requirement:
Under Sec 203 of the Companies Act, 2013, whole-time key managerial personnel (Managing Director/ Wholetime Director/ Manager) shall not hold office in more than one company except in its subsidiary company at the same time. Under Reg 17A of the SEBI LODR, if the director is a whole-time director/managing director in any listed company, then he/she cannot serve as a director in more than 7 listed companies; as independent director in more than 3 listed companies.

IiAS' stance:
IiAS will decide on such proposals on a case-to-case basis. IiAS makes a distinction between promoter executives and non-promoter executives in this case. The size and business linkages of the companies, as well as the remuneration being received from the companies where executive directorships are held are factored into the decision-making process.
For promoter executives: Given their ownership over the group and level of accountability, IiAS recognizes the need for promoters to hold executive positions in two listed entities. IiAS' recommendation on the remuneration proposals from each of the entities will be based on whether the final pay (both at an individual company level and aggregate group level) fits in with the general IiAS criteria on executive remuneration – which includes a best fit comparison with size, performance, and peers.
For non-promoter executives: IiAS does not encourage such directors to hold executive positions in more than one listed entity. IiAS will recommend voting for such proposals only if there are strong business linkages between the entities and the total remuneration is in line with IiAS criteria on executive remuneration.

IiAS' stance vis-a-vis regulatory requirements:
There is a difference between IiAS' stance and current regulations. While the regulations permit directors to hold two executive positions, IiAS opines that multiple executive positions may not allow directors to devote adequate time towards discharging their functions in each company effectively. Notwithstanding, promoter executives have responsibilities towards the group and are accountable for overall performance: therefore, IiAS understands the need to drive more than one company. For professional executives, IiAS believes their sole focus must be towards driving performance in one company. IiAS discourages multiple executive positions for professionals unless there are strong business linkages between the companies and the aggregate remuneration is reasonable.

12. Approve not filling casual vacancy on board

Legal Requirement:
Under Sec 152 of the Companies Act, 2013, at every AGM, one-third of the directors (liable to retire by rotation), shall retire from office. At the AGM at which a director retires as aforesaid, the company may fill up the vacancy by appointing the retiring director or some other person in his/her place. If the vacancy of the retiring director is not so filled-up and the meeting has not expressly resolved not to fill the vacancy, the AGM shall stand adjourned till the same day in the next week, at the same time and place.

IiAS' stance:
IiAS will generally recommend voting FOR not filling the vacancy caused due to retirement of a director. IiAS understands that if the resolution is defeated – the AGM stands adjourned: which poses its own set of challenges both for the investors and the company.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

13. Appointment/re-appointment of directors (executive/non-executive non-independent) *

Legal Requirement:
Under Sec 152 of the Companies Act, 2013, every director shall be appointed at a general meeting of the company. Effective 1 January 2022, companies were asked to ensure that shareholder approval for appointment or re-appointment of a director was taken at the next general meeting or within three months from the date of appointment/reappointment – whichever is earlier. Additionally, a wholetime director/managing director who was earlier rejected by shareholders, can be (re)appointed only with prior approval of shareholders. Effective 1 April 2024, shareholders' approval will be required for a directors' continuation on the board at least once every 5 years from the date of their (re)appointment. For directors serving as of 31 March 2024, without shareholders' approval for the last 5 years or more, such approval must be obtained in the first general meeting after 31 March 2024. This provision does not apply to directors appointed by a Court or a Tribunal or to a nominee director of the Government or RBI or of a financial institution / lender.

IiAS' stance:
IiAS will recommend voting for the (re)appointment of directors unless:

- the director is not eligible to retire by rotation (for government nominee directors on boards of non-government companies being appointed without a fixed tenure)
- the director carries a reputation risk or has been associated with transactions that IiAS considers to be prejudicial towards minority shareholders or has strong political affiliations
- the director has been on the board of two or more companies that have failed on account of poor governance and oversight including promoter directors/representatives where company performance has been consistently deteriorating
- for the size of business, there are too many members of the promoter family on the board, which in turn, expands the board size
- director lacks adequate experience i.e., less than 10 years of relevant work-experience or is less than 30 years of age (IiAS will make exceptions to this rule when the director is a first-generation promoter or founder)
- the company has not provided any profile of the director nor is it possible to comprehensively gather the director's experience and qualifications from publicly available information
- for government nominees on the board of state-owned enterprises, IiAS will generally support their (re)appointments so long as the company's board composition and board committee composition are compliant with regulations
- in the case of a Chairperson Emeritus, the compensation paid to the Chairman Emeritus is high relative to what is paid to the whole-time directors, other directors, and / or KMPs or the remuneration has not been disclosed

IiAS believes that directors seeking appointment should have adequate competence, experience and skills in line with the nature and complexity of the business. Further, for shareholders to take an informed decision, details regarding the qualifications, experience and skills of directors should be clearly disclosed in the notice.

IiAS' stance vis-a-vis regulatory requirements:
There is a difference between IiAS' stance and current regulations. While the regulations permit companies to decide upon directors being not liable to retire by rotation, IiAS does not favour permanent board representation by virtue of non-retiring directorships, as this does not give shareholders the chance to vote on director (re)appointments. IiAS also believes that political affiliations may unnecessarily politicize decisions that the company will make, and therefore distract the management from its core focus. IiAS does not generally support multiple family members on the board and in the company, because this may limit the company's ability to attract the right professional talent. For details, please refer to IiAS' Voting Guidelines.

14. Removal of directors

Legal Requirement:
Under Sec 169 of Companies Act, 2013, a company may, by ordinary resolution, remove a director. A special resolution will be required for removal of independent directors. Further, as per Reg 25(2A) of LODR, an independent director appointed via the dual mechanism (appointed by an ordinary resolution + majority of minority approval) can be removed only via such route.

IiAS' stance:
IiAS will recommend voting on director removal on a case-to-case basis. IiAS may recommend voting for resolutions to remove directors, if these are supported by the board of directors and there is adequate disclosure on the rationale for the removal. If a resolution to remove a director is proposed by the company, IiAS expects the board to clearly articulate its rationale. The rationale must link the director removal with the long-term interest of the company. Further the director, whose removal is being proposed, must have the opportunity to present his/her arguments, if any, in favour of remaining on the board. This will allow shareholders to have a balanced view and make a more discerning voting decision.
IiAS may likely recommend voting against resolutions presented by controlling shareholders to remove independent directors, unless there are circumstances that may result in board dysfunction or have materially negative implications for the company. IiAS believes that the removal of independent directors by controlling shareholders may set the wrong precedent. Independent directors are responsible for protecting the interest of non-promoter shareholders, among their fiduciary responsibilities.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

15. Change in board size*

Legal Requirement:
Sec 149(1) of the Companies Act, 2013, states that the board of every public company must comprise at least 3 and have a maximum of 15 directors. However, a company may appoint more than 15 directors after passing a special resolution. Under Reg 17 of the SEBI LODR, the board of top 2000 companies must have at least 6 directors.

IiAS' stance:
IiAS will generally recommend voting against resolutions regarding increase in board size to over 15 members, particularly if there are a disproportionate number of promoter family members on the board. However, in exceptional cases IiAS may vote for increasing the board size in companies facing financial/liquidity/stability/capital crisis and board expansion is necessary.

IiAS' stance vis-a-vis regulatory requirements:
There is a difference between IiAS' stance and current regulations. While regulations prescribe the upper and lower limits for the size of the board, IiAS recognises that board size should be commensurate with the size and operations of the company. IiAS believes that, given the nature and quantum of work involved, 3 directors may not be optimal. Its voting guidelines are therefore aligned to the Kotak Committee threshold of at least 6 directors. On the other hand, consensus on many critical issues may be difficult to achieve if board size exceeds 15 members. For details, please refer to IiAS' Voting Guidelines.

16. Remuneration to executive directors

Legal Requirement:
As per Sec 197(1) of the Companies Act, 2013, the total managerial remuneration payable by a company in any financial year should not exceed 11% of the net profits of the company. Further, unless shareholder approval has been sought by a special resolution, the remuneration shall be limited to –

- 5% of net profits to any one Executive Director or 10% where there are more than one Executive Directors on the Board;
- 1% of the net profits to non-executive directors (where the Board consists of Executive directors), else 3% of the net profits.

Under Reg 17 of the SEBI LODR, shareholder approval is required if overall pay to all the executive promoter directors exceeds 5% of the net profit or if remuneration to a single promoter executive director exceeds Rs. 50 mn or 2.5% of the net profit, whichever is higher.

IiAS' stance:
IiAS will recommend voting on such resolutions on a case-to-case basis. IiAS will use the following indicators to assess remuneration proposals:

- Size, turnover and profitability
- Market capitalisation and price performance
- Disclosures and clarity on pay structure, and on the performance metrics used to determine variable pay
- Alignment of pay with company performance
- Peer comparison
- Overall promoter/family remuneration
- Pay fairness (as compared to median employee remuneration)
- Fair value of options granted

IiAS expects remuneration resolutions for all executive directors to carry a maximum cap on the aggregate level of compensation. In the case of non-promoter executive directors, IiAS requires companies to disclose the expected fair value of stock options or the number of options that may be granted over the tenure. IiAS further believes that to align pay and performance, all compensation structures should consist of at least 50% of aggregate pay as variable pay and for all variable pay structures – including commission linked to profits – there should be defined deliverables for the director. Additionally, IiAS expects the NRCs to disclose the performance metrics used to benchmark variable pay, to provide greater clarity to shareholders. IiAS may consider voting AGAINST compensation structures for Managing Directors/CEOs if they do not carry malus and claw-back clauses. IiAS may raise concerns over the level of disclosures provided by the company on such resolutions.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

17. Minimum remuneration/Waiver of excess remuneration – Executive directors

Legal Requirement:

As per Schedule V of the Companies Act, 2013, where in any financial year during the currency of tenure of a managerial person, a company has no profits or its profits are inadequate, it may, pay remuneration to the managerial person not exceeding, the following limits:-

Where the effective capital is	***Limit of yearly remuneration payable shall not exceed***
(i) Negative or less than 5 crores	Rs. 60 Lakhs
(ii) 5 crores and above but less than 100 crores	Rs. 84 Lakhs
(iii) 100 crores and above but less than 250 crores	Rs. 120 Lakhs
(iv) 250 crores and above	Rs. 120 lakhs plus 0.01% of the effective capital in excess of Rs. 250 crores:

The company may pay remuneration over the ceiling limit specified in Schedule V, if members' approval by way of a Special Resolution has been taken for payment of minimum remuneration for a period not exceeding 3 years.

If any director receives, directly or indirectly remuneration in excess of the limit prescribed or without shareholder approval, he/she shall refund such sums to the company, within two years or such lesser period as may be allowed by the company unless shareholders consent to waiver of remuneration by a special resolution.

IiAS' stance:

IiAS will evaluate past performance and profitability before recommending voting for minimum remuneration/waiver of excess remuneration. IiAS may recommend voting 'for' if there is reason to believe that the executive director will play an important role to help turn around the company. IiAS believes that the minimum remuneration paid to executive directors must be in line with peers and must not be higher than the remuneration paid during years in which the company made adequate profits. Further, if approval is sought for waiver of excess remuneration, the waiver sought must be reasonable and overall remuneration (including excess remuneration) must be in line with the size and complexity of the company. IiAS may make a distinction on minimum remuneration/waiver of excess remuneration for promoters vis-à-vis professional executives.

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

18. Remuneration to non-executive directors

Legal Requirement:

Under Sec 197 of the Companies Act, 2013, non-executive directors can be paid commission/remuneration up to 1% of the net profits of the company (if there is a managing or whole-time director or manager) and 3% otherwise, by passing an ordinary resolution. These limits can be extended on obtaining approval of the shareholders by a special resolution. Under SEBI LODR, the board of directors shall recommend all fees or compensation, if any, paid to non-executive directors, including independent directors and shall require approval of shareholders in general meeting.

IiAS' stance:

IiAS will

- Whether an overall cap has been specified recommend voting on such resolutions on a case-to-case basis. IiAS' voting recommendation will be based on a combination of the following factors:
- Remuneration paid to non-executive directors in past years
- Whether the proposed remuneration is commensurate with the size and scale of the company
- Remuneration paid to one director relative to remuneration paid to other non-executive directors
- Whether aggregate remuneration is higher than or largely in line with that of any other executive director
- Whether the nature of remuneration is fixed or variable (commission-based)
- Whether there has been a linkage of non-executive director remuneration to company performance
- Overall family remuneration (for promoter family members)

IiAS opines that since the regulatory thresholds are based on profits - for larger companies, 1% of profits can be a large amount. Companies should therefore be encouraged to place a cap on the amount proposed to be paid, rather than stay with the regulatory thresholds. Additionally, IiAS does not encourage resolutions seeking shareholder approval in perpetuity and may raise concerns on open-ended resolutions. IiAS may also raise concerns over the level of disclosures provided by the company on such resolutions.

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

19. Remuneration to non-executive directors (exceeding 50% of the total remuneration to all NEDs)

Legal Requirement:
As per SEBI LODR, approval of shareholders must be obtained every year via a special resolution where the annual remuneration for a single non-executive director exceeds 50% of the total remuneration to all non-executive directors.

IiAS' stance:
IiAS will recommend voting on such resolutions on a case-to-case basis. In companies with professionals as CEO, promoter directors can have a material role to play in establishing strategic direction and governance structures – even while being appointed in a non-executive capacity. In such cases, where accountability and control can be linked to one non-executive promoter director, IiAS will consider the individual to be part of the leadership team and review the remuneration proposal from that perspective (see IiAS' voting guidelines on executive remuneration).
For non-promoter non-executive directors: Pay structures, which make their roles appear more executive in nature or where the remuneration is higher than the senior leadership, may have material implications for the chain of command within and outside the organization. In such circumstances, IiAS will generally not support the remuneration of the director.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

20. Alteration to Memorandum of Association (MoA)

Legal Requirement:
The Memorandum of Association (MoA) of a company states the name of company, state in which the registered office is to be situated, objects for which the company is incorporated, liability of members – whether limited or unlimited and share capital of the company. Under Sec 13 of the Companies Act, 2013, a company may alter the provisions of its MoA by obtaining shareholder approval through a special resolution; for change in capital clause an ordinary resolution would suffice.

IiAS' stance:
IiAS will generally recommend voting FOR resolutions seeking to amend the clauses in a company's MoA. IiAS believes that companies may require alteration to the MoA in most cases for operational reasons. Such alterations are generally not prejudicial to the interest of minority shareholders.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

21. Alteration to Objects clause

Legal Requirement:
Under Sec 13 of the Companies Act, 2013, a company, which has raised money from public through prospectus and still has any unutilized amount out of the money so raised, shall not change its objects for which it raised the money unless a special resolution is passed by the company. In such cases, the dissenting shareholders (i.e., not less than 10% of the shareholders who voted on the resolution in the general meeting) shall be given an opportunity to exit by the promoters and shareholders having control in accordance with the regulations specified under SEBI ICDR.

IiAS' stance:
IiAS will generally recommend voting FOR changes to the Objects Clause in the MoA. IiAS believes that it is the board's and management's prerogative to decide on business diversifications. Such alterations are generally not prejudicial to the interest of minority shareholders.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

22. Shifting of registered office

Legal Requirement:
Under Sec 13 of the Companies Act, 2013, approval of shareholders and the Central Government shall be required for alteration of the memorandum relating to shifting the place of the registered office from one State to another. The Act requires companies to hold their general meetings in the city/ town/village of the registered office.

IiAS' stance:
IiAS will recommend voting on such resolutions on a case-to-case basis. IiAS believes that companies should be more accessible to its shareholders and other stakeholders to facilitate shareholder engagement with company management. IiAS does not favour proposals to shift the registered office if there is reason to believe that the shifting will cause significant inconvenience to shareholders.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

23. Alteration to share capital

Legal Requirement:
Under Sec 61 of the Companies Act, 2013, a company may subject to shareholder approval, alter its capital by (a) increasing its authorised share capital; (b) consolidate and divide all or any of its share capital into shares of a larger amount; (c) convert all or any of its fully paid-up shares into stock and vice versa; (d) sub-dividing its shares, or any of them, into shares of smaller amount; (e) cancelling shares which have not been taken or agreed to be taken by any person.

IiAS' stance:
IiAS will generally recommend voting FOR resolutions proposing to increase/decrease the authorized share capital. IiAS believes that increase in authorised share capital will enable a company to raise further capital to pursue potential investment opportunities, if they arise. IiAS understands that subdivision of shares is generally expected to increase the liquidity and make the equity shares of the company more affordable to the small investors and thus is generally in favour of such resolutions.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

24. Alteration to Articles of Association (AoA)

Legal Requirement:
The Articles of Association (AoA) of a company contains regulations for management of the company. Under Sec 14 of the Companies Act, 2013, a company may alter the provisions of its AoA only by obtaining shareholder approval by a special resolution. SEBI now requires shareholder approval, on five yearly basis, of all existing and proposed special rights granted to any shareholder of a listed company.

IiAS' stance:
IiAS will generally recommend voting on resolutions seeking alteration of the AoA on a case-to-case basis. IiAS will look out for the following clauses in the AoA:

- Board nomination rights, except where such rights are based on shareholding/ownership thresholds subject to a minimum shareholding threshold of at least 10% to be able to nominate a director on the board
- Continuation of board nomination rights even with less than 10% shareholding; IiAS will generally not support such clauses, but may make context-based exceptions
- Committee nomination rights or quorum related rights to investors, irrespective of an embedded minimum shareholding threshold
- Non-rotational board seats, especially in case of promoter directors
- Appointment of permanent Managing Director/Whole-time Director
- Requirement of specific individual(s) to form quorum for board/committee or general meetings
- Veto power on board decisions
- Inclusion of clauses forming a part of investor/shareholder agreements
- Right to appoint risk head, internal or statutory auditors
- Powers to arrange security at meetings

IiAS believes that the charter documents of a company must ensure that all shareholders can only exercise such degree of control and influence which is proportionate to their equity ownership in the company. In principle, IiAS does not approve of any clauses or changes in the AoA which provide special/overriding powers to a particular individual/group, which are susceptible to potential misuse and/or are prejudicial to the interests of minority shareholders. IiAS expects the company to highlight the changes in the shareholder notice including making the draft AoA available on its website and may raise concerns where adequate information is not provided.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

25. Charge for sending documents through a particular mode to shareholders

Legal Requirement:
As per Sec 20 of the Companies Act, 2013, a document may be served to a shareholder by sending it to him/her by post, registered post, speed post, courier, or by such electronic or other mode. The Act further mentions that if a shareholder chooses a specific mode of delivery for the desired documents – other than the delivery mode opted by the company – he/she will have to pay such fees as may be determined by the company in its general meeting. Such a provision is either embedded as part of the AoA or put up as a separate resolution.

IiAS' stance:
IiAS will generally recommend voting FOR such resolutions. While IiAS believes charging fees would make shareholders reluctant in seeking information from the company; companies have informed IiAS, that this is a tool used by some disruptive retail shareholders to create inconveniences.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

26. Issuance of equity shares/ Preferential issue of shares

Legal Requirement:
As per Sec 62 of the Companies Act, 2013, issuance of shares on a pro-rata basis to existing shareholders (rights issue) will not require shareholder approval. However, if the issuance is to any other person/entity other than the existing shareholders, it requires approval through a special resolution. This includes both public issues (IPO/FPO) and preferential allotments.
Preferential issues are governed by SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018. Preferential issues are made to select investors and can be completed within shorter timeframes. A company is required to make adequate disclosures on the utilisation of funds raised through qualified institutional placement/preferential issuance. Such approvals are valid for a period of one year from the date of passing the resolution.

IiAS' stance:
IiAS will generally recommend voting on such resolutions on a case-to-case basis based on the mode of the issue. IiAS will generally recommend voting for preferential issues. The analysis will consider the following:

- List of allottees: promoter/non-promoter
- Type of investor: financial/strategic
- Extent of dilution
- Urgency of funds
- Debt levels and available cash
- Return on capital employed

IiAS will also recommend voting for preferential issues for companies in the financial services sector, as these companies need additional capital to meet Basel III guidelines, absorb credit losses, and to grow.
IiAS believes that companies need growth capital. However, while IiAS recognizes that a public issue is typically costlier and time consuming, IiAS views excessive dilution of existing shareholders by the promoter group as a concern unless companies are undergoing a debt restructuring program or are in urgent need of funds.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

27. Issue of Warrants

Legal Requirement:
Such issues are governed by SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018. In a warrants issue, at least 25% of the conversion price is paid up to front, with an option convert the warrants into equity shares anytime during the next 18 months. The remaining amount is paid upon conversion. If the warrants are allowed to lapse, the initial upfront amount is forfeited by the warrant holders.

IiAS' stance:
IiAS is generally not in favour of preferential issue of warrants to promoters. IiAS understands that warrants to promoters give them the option to ride the stock price for 18 months. Subsequently, if the promoters decide not to subscribe to the remaining 75%, it could have material implications for the company's long-term plans. IiAS does not encourage warrants to promoters and rather all the money be brought-in upfront. But IiAS may support issue of warrants to promoters where:

- promoters are subscribing to the warrants (along with other non-promoters) to compensate for their equity dilution
- the company has a capex plan that requires staggered funding
- the company is in financial distress
- promoters have a track record of completely subscribing to warrant issues in the past

IiAS may recommend voting for preferential warrants if these are:

- Made to a government-controlled entity (in case of PSUs)
- Made to technical collaborators, wherein the preferential allotment may be required to bring in technical expertise
- Made to non-promoter shareholders
- In which the exercise period is less than 18 months
- In which the upfront payment is greater than 25%
- Where the warrants are issued at a significant premium to the market price
- Company confirms that the allottee will pay the remaining amount irrespective of the market price prevailing on the date of exercise of warrants.
- Where the company's financial health is deteriorating and there is a need for urgent fund infusion
- Where the company offers the same terms of issue to both promoters and non-promoter shareholders
- Granted to an institution or listed company

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

28. Variation of shareholder rights*

Legal Requirement:
As per Sec 48 of the Companies Act, 2013, the voting rights attached to any class of shares may be varied with the consent of three fourths of holders of the shares of that class or by passing a special resolution at a separate meeting of the holders of the shares of that class and the issue of such shares is further authorised by an ordinary resolution.

IiAS' stance:
IiAS will generally recommend voting AGAINST any proposal for variation of voting rights.

IiAS' stance vis-a-vis regulatory requirements:
There is a difference between IiAS' stance and current regulations. While permitted under regulation, IiAS believes that, in the interest of shareholder democracy, one share should equal one vote.

29. Delisting of equity shares (from all the recognised stock exchanges)

Legal Requirement:

As per the SEBI (Delisting of Equity shares) Regulations, 2021, a company may voluntarily delist its equity shares from the stock exchanges where they are listed, if the acquirers provide an exit opportunity to the public shareholders of the company in accordance with the requirements of the SEBI Delisting Regulations. The procedure to be followed is: (i) acquirer to make a public announcement of the delisting offer; (ii) company to obtain the approval of its Board of Directors in respect of the proposal of the acquirer after carrying out the prescribed due diligence; (iii) company to obtain the approval of the shareholders through postal ballot and/or e-voting via a special resolution, within 45 days from obtaining board approval - the delisting resolution will be acted upon only if the votes cast by the public shareholders in favour of the resolution are at least two times the number of votes cast against it; (iv) company to seek in-principle approval of the stock exchange(s).

The acquirer may (i) accept at its sole discretion, to acquire the equity shares of the public shareholders at either (a) the discovered price determined in accordance with the reverse book building mechanism specified in the SEBI Delisting Regulations or (b) an exit price, which is higher than the floor price or (c) may, if it chooses to, provide an indicative price in respect of the delisting offer, which shall be higher than the floor price – acquirer shall also have the option to revise the indicative price upwards before the start of the bidding period. The acquirer may, if it deems fit, pay a price higher than the discovered price. Further, in case the discovered price is not acceptable to the acquirer, a counter offer may be made by the acquirer to the public shareholders. The delisting proposal will be successful only if the collective shareholding of the acquirer and the tendered equity shares accepted through eligible bids at the discovered price/exit price reaches 90% of the total issued equity share capital.

IiAS' stance:

IiAS will generally recommend voting FOR delisting proposals that are compliant with regulations unless they are detrimental to the interests of minority shareholders. IiAS believes companies and promoters can choose to delist their shares at any point time. The legal framework provides sufficient safeguards for minority shareholders including mandating a price-discovery mechanism (reverse book-building process) to decide on the final price.

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

29-A. Delisting from any one stock exchange (equity shares remain listed on any recognised stock exchange)

Legal Requirement:

As per the SEBI (Delisting of Equity shares) Regulations, 2021, a company may delist its equity shares from one or more of the recognised stock exchanges on which it is listed without providing an exit opportunity to the public shareholders, if after the proposed delisting, the equity shares remain listed on any recognised stock exchange that has nationwide trading terminals. In this regard, the Delisting Regulations require the acquirer to (i) seek Board approval; (ii) make an application to the relevant stock exchange(s); (iii) issue a public notice of the proposed delisting mentioning the name(s) of the stock exchange(s) from which the equity shares of the company are intended to be delisted, reasons for delisting, the fact of continuation of listing on other stock exchange(s) and (iv) disclose the fact of delisting in its first annual report post delisting.

IiAS' stance:

IiAS will generally recommend voting FOR delisting proposals that are compliant with regulations unless they are detrimental to the interests of minority shareholders. IiAS believes companies and promoters can choose to delist their shares at any point time. The legal framework provides sufficient safeguards for minority shareholders.

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

30. Issuance/Ratification of ESOP schemes

Legal Requirement:

ESOP schemes are governed by the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 in addition to the Companies Act, 2013. As per the regulations, companies can introduce new ESOP schemes and modify existing ESOP schemes by obtaining shareholder approval via a special resolution. Under Regulation 12, no company shall make any fresh grant which involves allotment or transfer of shares to its employees under any scheme formulated prior to its IPO and prior to the listing of its equity shares ('pre-IPO scheme') unless: (i) Such pre-IPO scheme is in conformity with the SEBI regulations; and (ii) Such pre-IPO scheme is ratified by its shareholders subsequent to the IPO, which may be done any time prior to grant of new options or shares or SAR under the pre-IPO scheme.

IiAS' stance:

IiAS will generally recommend voting on such resolutions on a case-to-case basis. While analysing such schemes, IiAS will consider - dilution, exercise price and vesting period. IiAS may recommend voting against stock option plans where the exercise price is at a significant discount (of over 20%) to the market price on date of grant. IiAS requires vesting of such options be based on the achievement of specific pre-defined performance targets. IiAS may make an exception in cases where vesting of the stock options is performance based and the performance indicators have been clearly disclosed.

IiAS understands that ESOP schemes are a common form of rewarding employees of companies. However, the performance criteria for such schemes must ensure alignment of interests between employees and shareholders. IiAS opines that deep discounts on employee stock options essentially take the form of deferred compensation rather than incentives. Additionally, the cost of such discounted options will have to be borne by the company. Additionally, IiAS expects the dilution to be restricted to less than 5%. Further, IiAS expects a staggered vesting schedule and overall vesting periods to be between one to five years. Exercise period should not stretch more than three years from date of vesting.

IiAS' stance vis-a-vis regulatory requirements:

IiAS supports issuance of ESOP's/RSU's as these become a crucial element of long-term variable pay in executive remuneration structures. In assessing stock options, IiAS evaluates if there is an alignment of interests between investors and employees. To this extent, we expect stock options to be at market price or at a token discount (of upto 20% of the market price). Where these are issues at higher discount, we expect the vesting to be performance based and the performance benchmarks to be disclosed. This helps investors make an informed decision on whether the proposed scheme is in the long-term interest of all stakeholders. For details, please refer to IiAS' Voting Guidelines.

30-A. Issuance/Ratification of ESPS schemes

Legal Requirement:

Employee Stock Purchase Schemes (ESPS) are governed by the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 in addition to the Companies Act, 2013. As per the regulations, companies can introduce new schemes and modify existing schemes by obtaining shareholder approval via a special resolution. The shares issued under an ESPS should be locked-in for a minimum period of one year from the date of allotment, other than where ESPS is part of a public issue and the shares are issued to employees at the same price as in the public issue.

IiAS' stance:

IiAS evaluates ESPS using the same guiding principles as ESOPs and will recommend voting on such resolutions on a case-to-case basis. While analysing such schemes, IiAS will consider - dilution, exercise/purchase price, lock-in period and offer period. IiAS will general not favour ESPS where there is no clarity on the exercise price, or the shares are granted at a significant discount to market price. In addition, IiAS may consider voting against schemes where the offer period is generally longer or details regarding the offer period are not disclosed. IiAS believes that if the offer period is too long, there is lack of clarity regarding the eventual discount offered to employees (which may be higher than 20%). Further, adequate disclosures regarding the scheme must be provided for shareholders to make an informed decision. However, IiAS may make exemptions for PSUs since the remuneration levels in public sector undertakings are usually low, expecting that such schemes are spread well across the employee pool. IiAS also expects companies to disclose the distribution of such schemes and the levels of employees eligible for the scheme's benefits.

IiAS' stance vis-a-vis regulatory requirements:

IiAS supports issuance of ESPS as a stock purchase scheme will help align the interests of employees with overall company performance. In assessing such schemes, IiAS evaluates if there is an alignment of interests between investors and employees. We expect the details of the scheme to be clearly disclosed. This helps investors make an informed decision on whether the proposed scheme is in the long-term interest of all stakeholders.

31. ESOP to listed holding/subsidiary companies*

Legal Requirement:
Under SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, approval of shareholders by way of a separate resolution in the general meeting shall be obtained by the company in case of extending ESOP schemes to employees of holding or subsidiary companies.

IiAS' stance:
IiAS will generally vote against extension of ESOP schemes to listed holding or subsidiary companies which have their own ESOP schemes.

IiAS' stance vis-a-vis regulatory requirements:
There is a difference between IiAS' stance and current regulations. While permitted under regulation, IiAS does not encourage the practice of extending ESOP schemes to listed holding/ subsidiary companies. Listed holding companies generally have their own ESOP schemes. In case of extension of schemes to subsidiary companies, the costs associated with the scheme will have to be borne by subsidiary company while the benefits will accrue to employees of the holding company.

31-A. ESPS to listed holding/subsidiary companies*

Legal Requirement:
Under SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, approval of shareholders by way of a separate resolution in the general meeting shall be obtained by the company in case of extending ESPS schemes to employees of holding or subsidiary companies.

IiAS' stance:
IiAS will generally vote against extension of ESPS schemes to listed holding or subsidiary companies which have their own ESPS schemes or where IiAS does not favour of the principal scheme itself.

IiAS' stance vis-a-vis regulatory requirements:
There is a difference between IiAS' stance and current regulations. While permitted under regulation, IiAS does not encourage the practice of extending ESPS schemes to listed holding/ subsidiary companies. In case of extension of schemes to subsidiary companies, the costs associated with the scheme will have to be borne by subsidiary company while the benefits will accrue to employees of the holding company.

32. Modification/Variation to ESOP/ESPS Schemes

Legal Requirement:
Under SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, a company may by special resolution in a general meeting vary the terms of the schemes offered pursuant to an earlier resolution of the general body but not yet exercised by the employee provided such variation is not prejudicial to the interests of the employees.

IiAS' stance:
IiAS will generally recommend voting on such resolutions on a case-to-case basis. Amendments to existing stock option schemes will be reviewed as per following:

- Modification of exercise price - IiAS is not in favour of re-pricing stock options and will generally recommend voting against unless:
  - executive directors and senior management are excluded from the new re-priced scheme
  - the reasons for the poor performance have been beyond the control of the company
  - the re-priced options follow a life cycle like that of new stock options, i.e., they have a specified vesting, grant and exercise schedule
  - the change is driven by regulatory compliance
- Modification of vesting period/exercise period - IiAS will take a case-to-case view on the revision in exercise period and expects the companies to provide a detailed rationale for revision in exercise period
- Increase in size of stock option scheme - Some companies propose to add to the pool of stock options in the existing schemes. In such cases, IiAS will treat and evaluate it as a fresh stock option plan

ESOPs are 'pay at risk' options that employees accept at the time of the grant. The inherent assumption of an ESOP scheme is that there could be possible downside risks – and that employees may not indeed gain from a stock price movement. By repricing companies seek to protect employees' downside risk and ensure that they gain on the upside. Notwithstanding, in case of material events beyond the company's control, IiAS recognizes the need to grant companies flexibility towards repricing of granted options.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

33. Issue of stock options exceeding 1% of issued capital

Legal Requirement:
Under SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, approval of shareholders by way of a separate resolution in the general meeting shall be obtained by the company in case of grant of stock options to identified employees, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant of such options.

IiAS' stance:
IiAS will take a case-to-case view on such grants to employees in excess of these thresholds. IiAS will generally recommend voting FOR such resolutions if the employees to be granted stock options of more than 1% of the issued capital have been clearly identified and their overall remuneration levels (inclusive of fair value of stock options) is reasonable. IiAS does not support a high degree of concentration of stock options if remuneration levels for the executive are already high or inclusion of the stock options will increase remuneration to high levels. IiAS recognises that the contribution and the expectation of senior leadership to drive performance. However, the overall remuneration levels of executives must be taken into consideration before excess stock options can be granted.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

34. Increase in borrowing limits

Legal Requirement:
As per Sec 180(1)(c) of the Companies Act, 2013, a company needs prior shareholder approval through a special resolution to raise debt more than the aggregate of its paid-up share capital and free reserves and securities premium account. Temporary loans obtained from the company's bankers in the ordinary course of business are exempt from this section: therefore, the applicability of this section (and the consequent shareholder approval) is largely limited to raising long term funds.

IiAS' stance:
IiAS will generally recommend voting on such resolutions on a case-to-case basis. IiAS will generally recommend voting FOR, under the following circumstances:

- for manufacturing and services companies, where the increase in debt has been clearly explained and ties in with a case for business expansion, or where the increase in debt has no material implications for the overall credit protection measures
- IiAS may consider using publicly available credit ratings provided by credit rating agencies as a measure to assess the company's level of creditworthiness
- for financial services companies, where the capital adequacy levels are within the levels stipulated by RBI's BASEL III capital regulations

IiAS may recommend voting AGAINST an increase in the borrowing limits where:

- the company has borrowed excessively in the past and/or has a poor track record in fulfilling its debt obligations
- there is no clear rationale for increasing the borrowing limit – and where, if the company raises debt to the full extent of the limit, its credit protection measures (Debt/EBITDA and/or Debt: Equity) will deteriorate significantly from current levels
- borrowing limit is a rolling limit linked to net-worth

IiAS believes that while companies do need some flexibility to raise funds to manage their operations, some companies ask shareholders to approve borrowing limits that the company is unlikely to use even in the foreseeable future. Others have asked for rolling limits - a finite amount of debt, over and above the net-worth - as the company's net-worth increases, so does its borrowing limits. IiAS will no longer support resolutions that carry rolling limits.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

35. Creation of charge on company's assets

Legal Requirement:
Companies need to seek approval of shareholders by way of special resolution for creation of charge on their assets to ratify security creation on funds already borrowed in the past or for securing their future borrowings under Sec 180(1)(a) of the Companies Act, 2013.

IiAS' stance:
IiAS will generally recommend voting for such resolutions. IiAS believes that the terms of borrowing, interest rates etc. for secured loans tend to be better than those for unsecured loans.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

36. Fixed deposits from members/public

Legal Requirement:
As per Sec 73 of the Companies Act, 2013, a company can accept or renew deposits up to 10% of aggregate of the paid-up capital, free reserve and securities premium account from its shareholders and up to 25% of aggregate of the paid-up capital, free reserve and securities premium account from the public. The company is additionally required to obtain credit rating (which must not be below the investment grade rating) from a recognised credit rating agency each year during the tenure of the deposits.

IiAS' stance:
IiAS will support fixed deposit programmes that have credit ratings in the higher investment grade (BBB+ and above for the FD programme), since instruments with these credit ratings are expected to have a lower probability of default. IiAS may not support fixed deposit programmes if it believes retail investors carry a significant risk in investing in such programmes. IiAS expects that the deposit programmes carry interest which is aligned to the credit risk of the company.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

37. Issue of NCDs/ debt instruments on private placement basis

Legal Requirement:
As per Sec 42 of the Companies Act, 2013, a company requires shareholder approval through a special resolution if debt securities are offered on a private placement basis. Where the proposed amount to be raised through such offer or invitation exceeds company's borrowing limits, it shall be sufficient if the company passes a previous special resolution only once in a year for all the offers or invitations for such debentures during the year.

IiAS' stance:
IiAS will generally recommend voting for such resolutions unless not within borrowing limits of the company. IiAS understands that non-convertible securities/debt instruments (debentures) are used by companies to augment their capital base.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

38. Issue of preference shares

Legal Requirement:
An issue of preference shares has to be authorized by passing a special resolution in the general meeting of the company as per Section 55 of the Companies Act, 2013. As per regulations, preference shareholders do not have voting rights. They can only vote on resolutions which directly affect the rights attached to the preference shares and, any resolution for the winding up of the company or for the repayment or reduction of the share capital of the company. However, in cases where the dividend in respect of a class of preference shares has not been paid for a period of two years or more, such class of preference shareholders gets a right to vote on all resolutions placed before the company.

IiAS' stance:
IiAS will generally recommend voting on such resolutions on a case-to-case basis. IiAS recognizes that preference shares are an additional mechanism of raising capital for companies and will generally support such resolutions. IiAS may not support preference share issuances if it believes retail investors carry a risk in investing in such instrument.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

39. Inter-corporate transactions

Legal Requirement:

Inter-corporate transactions can be clubbed into the following categories: loans, corporate guarantees or loan securities, and investments. Under Sec 186 of the Companies Act, 2013, when the aggregate of the loan, investment, guarantee or security already made together with the loan, investment, guarantee or security proposed to be made exceeds the higher of – 60% of (paid-up share capital + free reserves + securities premium) or 100% of (free reserves + securities premium), prior approval by means of a special resolution is necessary.

IiAS' stance:

IiAS believes that inter-corporate transactions provide operational flexibility to companies. However, these transactions may carry a risk of potential misuse. IiAS will generally recommend voting on such resolutions on a case-to-case basis. IiAS voting recommendations on such cases are based on the following:

- disclosure levels: mostly about the recipient parties
- headroom available under current limits
- affiliation of recipient party with promoter group
- financial health of the company extending loans
- financial health of the recipient parties, including cases where it is a part of an approved rehabilitation proposal
- source of funds for the transactions
- aggregate amount of transaction
- urgency and need for such transactions

Companies must have an absolute limit on inter-corporate transactions. IiAS will vote AGAINST resolutions where intercorporate transactions have rolling limits. IiAS may raise concerns in the absence of clarity on the transactions. IiAS will generally also not support transactions seeking shareholder approval in perpetuity. IiAS believes shareholders must have a right to periodically review all decisions taken by the board.

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

40. Loans to companies in which directors are interested (Sec 185)

Legal Requirement:

Sec 185 of Companies Act, 2013, prohibits any company from giving loans, guarantee or securities in favor of (a) its directors or directors of the holding company; (b) any partner or relative of such director; (c) any firm in which such director/relative is a partner or (d) to any other person in whom the director is interested; subject to the following conditions –

- Shareholder approval is sought through a special resolution at a general meeting and full disclosure of the same is provided in the explanatory statement
- the loans are utilized by the borrowing company for its principal business activities.

These conditions do not apply to,

1. the giving of any loan to a managing or whole-time director - as a part of the conditions of service extended by the company to all its employees or pursuant to any scheme approved by the members by a special resolution
2. a company which in the ordinary course of its business provides loans or gives guarantees or securities for the due repayment of any loan
3. any loan made by a holding company to its wholly owned subsidiary company or any guarantee given or security provided by a holding company in respect of any loan made to its wholly owned subsidiary company
4. any guarantee given or security provided by a holding company in respect of loan made by any bank or financial institution to its subsidiary company.

"Person in whom a director is interested" means any private company in which such director is a director or member; anybody corporate in which not less than 25% of the total voting power may be exercised or controlled by any such director(s) or whose Board is accustomed to act in accordance with the directions or instructions of the Board, or of any director(s), of the lending company.

IiAS' stance:

IiAS will generally recommend voting on such resolutions on a case-to-case basis. IiAS voting recommendations on such cases are based on the following:

- The company has provided a strategic rationale nor an economic rationale to support its subsidiaries/joint venture
- Details on whether the loans provided will be to the extent of the company's shareholding and if the transactions will be at arm's length pricing
- The company has disclosed the full terms of transactions including interest and the repayment period

In IiAS' view, transactions with companies with common directorships pose inherent conflicts of interest and may be used to the detriment of minority shareholders. A clear and granular articulation of the need for such transactions, details of pricing and full disclosure of the terms of the transactions will be factored into IiAS' decision on such resolutions. In the absence of clarity on the transactions, IiAS will vote against such resolutions. IiAS will generally also not support transactions seeking shareholder approval in perpetuity. IiAS believes shareholders must have a right to periodically review all decisions taken by the board.

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

41. Office of profit

Legal Requirement:

Under Sec 188 of the Companies Act, 2013, a related party's appointment to any office or place of profit in the company, its subsidiary or associate carrying monthly remuneration exceeding Rs. 0.25 mn should be approved by the shareholders of the company. This requirement will not apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.

IiAS' stance:

IiAS will generally recommend voting on such resolutions on a case-to-case basis. IiAS' recommendation will depend on:

- The appointee's qualifications and experience – both within and outside the company
- proposed pay structure
- the comparability of remuneration across peers
- the definition of the peer group based on experience, skill, and remuneration levels

Persons in office of profit positions should be compensated in line with their experience levels and responsibilities in the business. IiAS expects companies to ask for shareholder approval for the office of profit position for a defined period of time which allows shareholders to periodically revisit such appointments and remuneration levels; but not more than three years– IiAS is unlikely to support open-ended resolutions. Also, IiAS may not support the appointments, if there are too many family members being inducted in similar roles across the company.

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

42. Related Party transactions

Legal Requirement:

- The Companies Act 2013, under Section 188 defines different materiality thresholds depending on the nature of the transaction for obtaining shareholder approval. Any related party transaction which is not in ordinary course of business and not at arm's length will require shareholder approval.
- As per SEBI LODR, prior approval of shareholders via an ordinary resolution will be required for: (a) all material RPTs, i.e., transfer of resources exceeding Rs. 1000 crores or 10% of the annual consolidated turnover – lower of the two; (b) subsequent material modifications; (c) material RPTs between a company or any of its subsidiaries with a related party of the company/any of its subsidiaries; (d) material RPTs between the company or any of its subsidiaries with any other person/entity, the purpose and effect of which is to benefit a related party of the company or any of its subsidiaries. Preferential issues, corporate actions viz., payment of dividend, subdivision/consolidation of securities, rights issue or bonus issue, buy-back of securities and acceptance of fixed deposits by banks/NBFCs at terms uniformly applicable/offered to all shareholders/public will not be considered as RPTs.
- Interested/related parties can abstain from voting or vote against such resolutions.
- Transactions (a) with wholly owned subsidiaries; (b) between Government-owned entities and (c) between wholly-owned subsidiaries of a listed holding company are exempt from shareholder approval.

IiAS' stance:

IiAS will generally recommend voting on such resolutions on a case-to-case basis. IiAS will generally recommend voting FOR transactions that are operational in nature.

IiAS will generally recommend voting against related party transactions if-

• the controlling shareholder unduly benefits from the transaction

• it cannot be ascertained that the transaction is at arms-length

• the approval sought is for an indefinite amount or for an undefined time period: IiAS requires transactions to be presented with a limit in absolute amounts along with the time period for which the approval is being sought. IiAS however recognizes that companies enter into transactions which by their very nature, might be of longer duration, an example being service concession agreements, sale and leaseback transactions, power purchase agreements. We recognize that some of these contracts can extend to a 20+ year period. IiAS will support these transactions if the company can establish a clear business imperative. In such instances, IiAS expects companies to disclose the contours of such contracts, including the indicative value during the life of the contract and the annual value.

For all related party transactions (whether annual contracts or long-term contracts), IiAS expects companies to disclose the ultimate ownership of the related party with which the company seeks to undertake these transactions. In assessing these transactions, IiAS will question the underlying rationale for the transaction. This will include raising questions on the business structure. IiAS will generally not support arrangements where promoter-controlled business is running allied or adjacent businesses that are primarily dependent on the listed company.

IiAS believes that related party transactions must be conducted in a manner that protects the interests of minority shareholders. For this, board must ensure that all aspects of such related party transactions are fully disclosed, including details on its nature, frequency, materiality, quantum and pricing terms: IiAS may raise concerns over the level of disclosures provided in the shareholder notice. We also believe that the regulatory intent is to seek approval for related party transactions on a gross basis, and prior to the transactions being carried out. IiAS will generally also not support transactions seeking shareholder approval in perpetuity. IiAS believes shareholders must have a right to periodically review all decisions taken by the board.

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

43. Royalty payments

Legal Requirement:

Under the SEBI LODR, shareholders' approval is required for royalty/brand payments to related parties exceeding 5% of consolidated turnover of the company as per the last audited financials.

IiAS' stance:

IiAS will recommend voting on the payment of royalty based on an analysis of the following general principles:

- Should the company be paying royalty in the first place?
- Does the market see value in the brand/technology?
- How has the quantum of royalty been decided and has an independent evaluation been conducted?
- What has been the track record on royalty pay-outs, and has it been aligned with performance?

IiAS will generally recommend voting FOR royalty payments within these thresholds, provided that royalty has grown in line with performance. IiAS believes that while royalty payments are a legitimate payout, they must be proportionate to the benefits derived by the company. In IiAS' opinion, the increase in royalty must be in line with the improvement in the performance of the company.

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

44. Charitable donations*

Legal Requirement:
Section 181 of the Companies Act, 2013, allows companies to make charitable contributions up to 5% of the average net profits for the three immediately preceding financial years. Shareholder approval via an ordinary resolution is required for contributions to exceed the 5% threshold.

IiAS' stance:
IiAS will generally recommend voting AGAINST charitable donations beyond 5% of average net profits. IiAS may make an exception to this policy if profits have dipped during the year due to one-time expenses or other exceptional items. In such cases, IiAS expects the company to seek approval only for the specific year in which the profits dipped. Further, IiAS does not favour approvals where there is any association between the recipient charities and the company management/board/ members of the promoter family.

IiAS' stance vis-a-vis regulatory requirements:
There is a difference between IiAS' stance and current regulations. IiAS understands that companies can spend 5% of an average of three-year profits in charitable contributions without shareholder approval. Over and above this, companies are required to spend 2% of average of three-year profits in CSR, which has philanthropic aspects. This resolution in effect is seeking shareholder approval when the spend is more than 7% of the average net profits for the three immediately preceding financial years on charitable / non-business-related aspects.

45. Sale of Assets / Slump sale

Legal Requirement:
As per section 180(1)(a) of the Companies Act, 2013, a company cannot sell, lease, or dispose of any of its undertaking, or substantially the whole of any undertaking, without getting prior approval from shareholders through a special resolution. SEBI regulations now require the proposal to be additionally approved by majority of public/minority shareholders.
Under Regulation 24(5) of the SEBI LODR, a company cannot dispose of shares in its material subsidiary which would reduce its shareholding (either on its own or together with other subsidiaries) to less than or equal to 50% or cease the exercise of control over the subsidiary without passing a special resolution. Further, as per Regulation 24(6) selling, disposing and leasing of assets amounting to more than 20% of the assets of the material subsidiary on an aggregate basis during a financial year shall require prior approval of shareholders by way of special resolution.

IiAS' stance:
IiAS will generally recommend voting on such resolutions on a case-to-case basis. IiAS expects the companies to make the following disclosures:

- Rationale for the sale
- Financials of the business being sold
- Critical balance sheet and P&L ratios of the business being sold
- Expected impact on sales/profits
- Use of sale proceeds
- Book value of aggregate assets to be disposed
- Market value of aggregate assets to be disposed
- Valuation report from an independent third-party
- Expected price

Given that slump sales envisage disposal of a significant portion of a company's existing business, these may have a material impact on the financials of the company. Therefore, details of the proposed transaction, including the strategic rationale, financial impact and valuation metrics are critical to shareholders in order to take an informed view. Further, regulations now require companies to disclose the object of and commercial rationale for carrying out the transaction and the use of its proceeds. IiAS may raise concerns over the level of disclosures provided in the notice. IiAS will generally recommend voting for the resolution if it believes that the transaction is not detrimental to the interests of the minority shareholders.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

46. Reclassification of promoters

Legal Requirement:

Reg 31A of the SEBI LODR requires shareholders to approve proposals for promoter re-classification. Reclassification of promoters is permitted under the following conditions:

1. promoters seeking re-classification should make a request to the company
2. the Board must analyse such a request and place it before the shareholders along with the Board's view on the same
3. company should obtain shareholder approval in a general meeting where the promoters seeking re-classification and persons related thereto shall not vote to approve such resolution
4. promoter along with persons related thereto should:
   - not hold more than 10% of the voting rights in the company
   - not directly or indirectly, exercise control, over the affairs of the entity
   - not have special rights under any formal/informal arrangements
   - not be represented on the Board (including having a nominee director)
   - not act as KMP in the company
   - not be categorised as a "wilful defaulter" under RBI guidelines
   - not be a fugitive economic offender
5. the company should:
   - comply with the minimum public shareholding requirements
   - not have trading in its shares suspended
   - not have outstanding dues to the Board, stock exchange or depositories
6. promoters seeking re-classification shall continue to – (a) not hold more than 10% of the voting rights; (b) not directly or indirectly, exercise control and (c) not have special rights at all time from the date of re-classification failing which he/she shall automatically be reclassified as promoter
7. promoters seeking re-classification shall continue to not be represented on the Board or act as KMP for at least 3 years from the date of re-classification failing which he/she shall automatically be reclassified as promoter

If any public shareholder seeks to re-classify itself as promoter, it shall be required to make an open offer.

IiAS' stance:

IiAS will generally recommend voting on such resolutions on a case-to-case basis. IiAS will generally recommend voting for such reclassifications where:

- the company has abided by the spirit of regulatory provisions
- where the change is due to a takeover, change in company ownership, restructuring of shareholding or open offer
- pursuant to a family separation the reclassified promoters are not expected to exercise any management control
- the promoter has not been director or key managerial personnel of the company for a period of at least one year

IiAS believes that promoters should abide by the spirit of the regulation in cases of re-classification. IiAS does not favour subsequent associations with the outgoing promoters (e.g., where a relative of the promoter seeking to be reclassified continues to be on the board). IiAS understands that such associations reflect a relative's proximity to the promoter and their day-to-day involvement in the company, along with the instances of divulging any relevant market information that may be available.

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

47. Buyback

Legal Requirement:
Buyback of shares in India is governed by Sec 68 of the Companies Act 2013, and SEBI (Buyback of Securities) Regulations, 2018. Buyback proposals require shareholder approval by passing a special resolution. As per these regulations, any company willing to buy back some of its shares from the market, needs to:

- Disclose adequate reasons for the buy-back
- Ensure that the buy-back amount is 25% or less of the aggregate of paid-up capital and free reserves of the company
- Ensure that the aggregate debt after buy-back is not more than twice the sum of company's paid-up capital and free reserves
- Complete the process within one year from the date of passing of the special resolution
- Ensure that no offer of buy-back is made within a period of one year reckoned from the date of the closure of the preceding offer of buy-back
- Ensure that at least 75% of the amount earmarked for buy-back is utilized

IiAS' stance:
IiAS will generally recommend voting on such resolutions on a case-to-case basis. IiAS will generally recommend voting FOR buyback proposals. IiAS recognizes that share buybacks provide an efficient exit mechanism for shareholders. Every shareholder has a choice: they can tender their shares through the buyback offer if they feel the price is right or they can continue to remain invested. In rare instances, IiAS may caution investors and recommend voting against share buy-backs if it negatively impacts the long-term interests of the company's stakeholders.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

48. Scheme of Arrangement

Legal Requirement:
Under Sec 230 of the Companies Act, 2013, applications for schemes of arrangement need to be submitted to the concerned National Company Law Tribunal (NCLT) for approval. The NCLT then directs the company to convene a meeting of its shareholders and creditors and get their approval through a special resolution. The schemes also need to be submitted to the stock exchanges for approval. If the scheme involves entities of the promoter group or envisages issuing additional shares to the promoter group, the scheme needs to be additionally approved by majority of public/minority shareholders.

IiAS' stance:
IiAS will generally recommend voting on such resolutions on a case-to-case basis. IiAS' analysis will generally consider the following:

- Valuation and mode of payment
- Dilution of stake and change in shareholding pattern
- Underlying rationale
- Impact on financial and leverage ratios
- Accounting treatment
- Legal and tax implications
- Impact on minority shareholders

IiAS believes that though the underlying contours and rationale for each scheme varies, such transactions must be fair to both parties of the merger/amalgamation.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

49. Shareholder director in public sector banks

Legal Requirement:
As per section 9 of the Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970, if the public shareholding in the bank is above 16.0% but less than 32.0% then two public shareholders can be appointed as directors to represent them.

IiAS' stance:
The bank issues the notice of the shareholder meeting without the names of the shareholder directors. The names of all the proposed appointees are published only after the nominations are received - generally close to the meeting date. Only if the number of nominations is more than the vacancies, are investors expected to select a shareholder director through vote. As banks generally do not provide a detailed profile of the candidates, IiAS will review information available in public domain and provide its recommendations based on the experience and suitability of the candidate(s).

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

50. Issue of bonus shares

Legal Requirement:
Under Sec 63 of the Companies Act, 2013, a company may issue fully paid-up bonus shares to its shareholders out of its free reserves, securities premium account or capital redemption reserve account by obtaining shareholder approval at a general meeting.

IiAS' stance:
Bonus shares do not change the fundamentals of the company. IiAS will generally recommend voting FOR the issuance of bonus shares.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

51. Bonus debentures

Legal Requirement:
There is no specific provision regarding issue of bonus debentures under the Companies Act, 2013. Bonus debentures are usually issued under a scheme of arrangement. As the term 'arrangement' has a very wide import, it includes all modes of re-organisation of share capital. The NCLT and majority of the shareholders have to approve the scheme. Also, the Articles of Association (AoA) of the company have to be amended, if it does not include a provision for issuance.

IiAS' stance:
IiAS will generally recommend voting on such resolutions on a case-to-case basis. IiAS' analysis will generally consider the following:
- Current debt levels
- Company's track record of servicing financial obligations
- Publicly available credit ratings provided by credit rating agencies
- Clubbing of resolutions

IiAS' stance vis-a-vis regulatory requirements:
There are no specific regulatory provisions governing the issue of bonus debentures. Through its analysis and commentary, IiAS is helping investors evaluate the proposal.

52. Option to lenders to convert loan into equity

Legal Requirement:
As per Section 62(3) of the Companies Act 2013, the terms of issue of debentures or loan containing an option to be converted to equity should be approved before the issue of such debentures or the raising of loan by a special resolution passed by the company in a general meeting.

IiAS' stance:
IiAS will recommend voting on such resolutions on a case-to-case basis and will factor in the company's credit quality and quantum of outstanding debt. IiAS understands that lenders typically insist on having a clause for conversion of debt into equity to safeguard their interests in case of default or inability to pay by the company. While the dilution to shareholders could be high if all loans are converted to equity, such a provision is often needed to raise debt from the banking channel.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

53. Remuneration to non-executive directors in case of loss or inadequacy of profits

Legal Requirement:

As per Schedule V of the Companies Act, 2013, in the event of no profits or inadequate profits, non-executive directors and independent directors can receive remuneration in accordance with the limits mentioned below, which are based on the effective capital of the company,

Where the effective capital is	***Limit of yearly remuneration payable shall not exceed***
(i) Negative or less than 5 crores	Rs. 12 Lakhs
(ii) 5 crores and above but less than 100 crores	Rs. 17 Lakhs
(iii) 100 crores and above but less than 250 crores	Rs. 24 Lakhs
(iv) 250 crores and above	Rs. 24 lakhs plus 0.01% of the effective capital in excess of Rs. 250 crores

The company may pay remuneration over the ceiling limit, if members' approval by way of a special resolution has been taken for a period not exceeding 3 years.

IiAS' stance:

IiAS will recommend voting on such resolutions on a case-to-case basis. IiAS' voting recommendation will be based on a combination of the following factors:

- Remuneration paid to non-executive directors in past years
- Whether the proposed remuneration is commensurate with the size and scale of the company
- Remuneration paid to one director relative to remuneration paid to other non-executive directors
- Whether the proposed remuneration is in line with peers
- Whether the remuneration is higher than the remuneration paid during years in which the company made adequate profits

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

54. Revised FEMA rules for NRI/OCI

Legal Requirement:

As per Schedule III of the Foreign Exchange Management (Non-debt Instruments) Rules, 2019, a Non-resident Indian (NRI) or an Overseas Citizen of India (OCI) may purchase or sell equity instruments of a listed company on repatriation basis, on a recognized stock exchange in India, subject to the following conditions: (i) NRI/OCI may purchase and sell equity instruments through a branch designated by an Authorized Dealer and (ii) the total holding by any individual NRI/OCI shall not exceed 5% of the total paid-up equity capital or 5% of the paid-up value of each series of debentures/preference shares/share warrants issued by the company. Further, the total holding of all NRI/OCI should not exceed 10% of the total paid-up equity capital or 10% of the paid-up value of each series of debentures/preference shares/ share warrants. However, this aggregate ceiling of 10% can be increased to 24% if approved by the members of the company through a special resolution.

IiAS' stance:

IiAS will recommend voting on such resolutions on a case-to-case basis. IiAS will generally recommend voting FOR such cases where it believes that the proposed limits are within regulatory limits and not prejudicial to the interest of minority shareholders.

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

55. Keeping registers and returns at a place other than the registered office

Legal Requirement:

Under provisions of Section 94(1) of the Companies Act, 2013, register and index of members and debenture holders along with the copies of annual return are required to be maintained at the registered office of the company. However, these documents can be kept at any other place within the city, town or village in which the registered office is situated or any other place in India in which more than one-tenth of the total members entered in the register of members reside, if approved by a special resolution.

IiAS' stance:

IiAS will recommend voting on such resolutions on a case-to-case basis. IiAS will generally recommend voting FOR such cases where it believes that the move will not impede the accessibility of documents to shareholders.

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

56. Capital reduction

Legal Requirement:

As per the provisions of Section 66 of the Companies Act, 2013, a company may, by a special resolution and subject to confirmation by the Tribunal, reduce its share capital in any manner and in, particular, may,

(a) extinguish or reduce the liability on any of its shares in respect of the share capital not paid-up; or

(b) either with or without extinguishing or reducing liability on any of its shares -

(i) cancel any paid-up share capital which is lost or is unrepresented by available assets or

(ii) pay off any paid-up share capital which is in excess of the wants of the company.

And alter its memorandum by reducing the amount of its share capital and of its shares accordingly.

IiAS' stance:

IiAS will recommend voting on such resolutions on a case-to-case basis. IiAS will consider the following while analyzing the resolution:

- Reason, quantum and manner of reduction of capital
- Valuation aspects
- Impact on minority shareholders
- Capital Structure - Pre and Post reduction of capital
- Financial outgo and operational impact

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

57. Appointment of branch auditors

Legal Requirement:

As per Section 143, where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (i.e. the statutory auditor) or by any other person qualified for appointment as an auditor of the company and appointed under Section 139. In case the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the statutory auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country: Provided that the branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.

IiAS' stance:

IiAS will generally recommend voting FOR such resolutions. However, IiAS may recommend voting AGAINST where:

- IiAS opines that the proposed audit firm does not have sufficient experience to audit the branch based on the size and complexity of the business
- Tenure of audit firm/network (>10 years) with the branch or the company based on the contribution of the branch operations to the overall business
- The company has not mentioned the details of the branch auditor in the notice
- Lack of information publicly available on the audit firm and the audit partner experience

IiAS may make an exception for banks and PSUs, where the choice of branch auditors is vetted or approved by RBI / GoI.

IiAS' stance vis-a-vis regulatory requirements:

IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

58. Compensation or profit-sharing agreements

Legal Requirement:
As per Regulation 26(6) of SEBI LODR, no employee including key managerial personnel/director/promoter of a company shall enter into any agreement for himself/herself or on behalf of any other person/shareholder/any other third party with regard to compensation or profit sharing in connection with dealings in the securities of the company, unless prior approval has been obtained from the Board of Directors as well as public shareholders by way of an ordinary resolution where all interested persons involved in the transaction covered under the agreement abstain from voting.

IiAS' stance:
IiAS will generally vote AGAINST such arrangements because these align employee interest to a controlled set of shareholders and may promote 'short-termism'. IiAS may, in exceptional cases, support such arrangements after analysing the following parameters:
• Nature of the agreement
• Beneficiaries under the agreement
• Rationale for entering into the agreement
• Whether the agreement aligns the interests of the beneficiaries with that of the company/minority shareholders
IiAS believes that the board must ensure that all aspects of such agreements are fully disclosed to enable shareholders make an informed decision: IiAS may raise concerns over the level of disclosures provided in the shareholder notice.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

59. Approval of special rights post IPO (ratification of rights not embedded in the AoA)

Legal Requirement:
In terms of stock exchange requirements, no single shareholder should be accorded any special rights (including under shareholders'/promoters' agreements) when the company is undergoing an IPO. Accordingly, all special rights granted to specific shareholders are required to fall away at the time of listing of equity shares in the relevant stock exchanges or approved by shareholders via a special resolution or as a practice, are included in the company's articles of association. SEBI now requires shareholder approval, on five yearly basis, of all existing and proposed special rights granted to any shareholder of a listed company. Under the LODR amendment, such special rights must be approved by the shareholders in a general meeting passing a special resolution once every five years starting from the date of the grant.

IiAS' stance:
IiAS will vote on a case-to-case basis on resolutions to provide special rights to a specific set of shareholders/investors. IiAS considers the following provisions prejudicial to the interest of investors and will not support such clauses:

- Where a set of shareholders have board nomination rights disproportionate to their shareholding or if these rights are embedded in permanency and continue even if shareholding levels drop;
- Where identified individuals (usually promoters) have board permanency – they neither retire by rotation nor are appointed for a fixed term;
- Where identified individuals, or those representing an identified set of investors are necessarily required to form quorum for board, board committee and/or shareholder meetings;
- Where identified/named individuals are permanently appointed as Managing Director, Whole-Time Directors, or Chairperson
- Where investor/investor nominee directors are given veto power on board decisions

IiAS generally does not approve of any rights or clauses which provide special/overriding powers to a particular individual/group, which are susceptible to potential misuse and/or are prejudicial to the interests of minority shareholders. IiAS expects the company to provide adequate disclosure in the shareholder notice and may raise concerns where sufficient information is not provided.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

60. Migration to Main board from SME platform

Legal Requirement:
As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, a company which has its securities listed on an SME exchange may migrate its securities to the Main Board subject to the following conditions:

- The securities of the company have been listed and traded on the SME Platform for at least 2 years
- The post issue face value capital of the company is more than Rs. 10 crores upto Rs. 25 crores
- Shareholders approve the migration by passing a special resolution through postal ballot. However, the resolution will be acted upon only if the votes cast by the public shareholders in favour of the proposal amount to at least two times the number of votes cast by public shareholders against the proposal
- The company fulfils the eligibility criteria for listing laid down by the Main Board

IiAS' stance:
IiAS will generally recommend voting on such resolutions on a case-to-case basis. Since companies need to fulfil a pre-defined eligibility criterion, IiAS will generally recommend voting FOR such cases where it believes that the migration will help increase participation by retail investors and is expected to increase the liquidity of shares.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal.

61. Change in the use of IPO proceeds

Legal Requirement:
Under Sections 13 and 27 of the Companies Act, 2013, a company, which has raised money from public through prospectus and still has any unutilized amount out of the money so raised, shall not change its objects for which it raised the money unless a special resolution is passed by the company. In such cases, the dissenting shareholders (i.e., not less than 10% of the shareholders who voted on the resolution in the general meeting) shall be given an opportunity to exit by the promoters and shareholders having control in accordance with the regulations specified under SEBI ICDR.

IiAS' stance:
IiAS will generally recommend voting FOR such proposals based on the company's stated justification and rationale for the change.

IiAS' stance vis-a-vis regulatory requirements:
IiAS' stance, we believe, does not differ from the current regulations. Through its analysis and commentary, IiAS is helping investors evaluate the proposal. For details, please refer to IiAS' Voting Guidelines.

62. Appointment of Alternate Director*

Legal Requirement:
Under Section 161 of the Companies Act, 2013, a company may, if authorised by its articles or by a resolution, appoint a person, not being a person holding any alternate directorship for any other director in the company or holding directorship in the same company, to act as an alternate director for a director during his absence for a period of not less than three months from India. An alternate director to an independent director must meet the criteria for independence required under regulations. An alternate director shall not hold office for a period longer than that permissible to the original director and shall vacate the office if and when the director in whose place he/she has been appointed returns to India. Further, if the term of office of the original director is determined before he/she returns to India, any provision for the automatic re-appointment of retiring directors in default of another appointment shall apply to the original, and not to the alternate director.

IiAS' stance:
Alternate directors are allowed under Indian regulations for directors that do not reside in India. Typically, alternate directors appointed in MNCs where the global rep is not based in India. IiAS does not support the appointment of alternate directors. Our view is that given the technology available and the regulations' acceptance of it, directors can attend via video calls. IiAS will generally recommend voting AGAINST such appointments. At times, where a KMP is the alternate director, there may be a resolution regarding compensation or their continuation as an employee in the company. In these instances, IiAS will generally vote for the resolution.

IiAS' stance vis-a-vis regulatory requirements:
There is a difference between IiAS' stance and current regulations. We believe that, given technology for attending meetings virtually, the concept of alternate directors itself is redundant.
IiAS believes that companies must refrain from appointing alternate directors who attend meetings on behalf of an elected director; the elected director must use technology to participate in board/committee meetings.