Module 3 · Corporate Governance, CSR and Sustainability P13 ·

Section A · topics 3.1–3.5

SM pp. 219–252 (+ the CSR law on SM 60 and 127). **93 marks in 7 papers. CSR has come in every paper**; governance and sustainability supply **MCQs (viii) and (ix)** almost every time.

Topic	J23	D23	J24	D24	J25	D25	J26	Total
3.4 CSR (law + practice + NGRBC)	12	7	7	7	2	7	7	**49**
3.5 Sustainability management	–	–	9	2	–	2	2	**15**
3.2 Governance codes in India	–	–	–	9	–	2	2	**13**
3.1 Governance concepts	–	9	–	–	–	–	–	**9**
3.3 Governance in family business	–	–	–	–	7	–	–	**7**

HOW IT IS EXAMINED: THE SM'S OWN EXERCISE AND SOLVED CASE ARE THE QUESTION BANK

- **Jun'26 Q1(viii)** = SM MCQ 15 (Kumar Mangalam Birla, Clause 49A) · **Dec'25 and Jun'26 Q1(ix)** = SM MCQ 4 (paddy is not sustainable development) · **Dec'25 Q1(viii)** = SM MCQ 23 (CG ratings by credit rating agencies) · **Jun'25 Q1(vi)** = SM MCQ 20 · **Jun'24 Q1(viii)** = SM MCQs 1/8 (triple bottom line) · ICMAI PTP = SM MCQ 19. **Learn the exercise on the last page.**
- **Jun'23 Q4(b) is the SM's solved Case Study 1 (ABC Tyres)**, and Jun'24 Q4(a) is the same type: a **CSR applicability case from a table of net worth, turnover and profit**. The model answer is in part 6. ⚠ The SM's own solution has a **wrong figure**.
- **Q6(a)** has been a CSR or governance 7-marker in recent papers. **Jun'26 Q6(a) was ICMAI's MQP question word for word.**

DEC'26: OUR PREDICTION

- **CSR**: tier A, **7–9 marks**, a 98% chance of appearing. Likely: (1) **implementation methods and problems** (PTP); (2) the **applicability case** from figures (asked 4×); (3) **ZCZP on the Social Stock Exchange, 10% cap** (Dec'26 supplementary, likely as an MCQ); (4) evaluation of CSR projects.
- **MCQs (viii)–(ix):** one governance + one sustainability, a **70%** chance each.

MAP

1. Governance concepts (3.1) ★
2. Governance codes, ID code, ratings, LODR reports (3.2) ★★
3. Family business (3.3) ★
4. CSR: law (s.135), activities, implementation, evaluation (3.4) ★★★
5. NVG / NGRBC / SDGs (3.4) ★★
6. Sustainability management, BRSR (3.5) ★★
7. Model answers · SM exercise (all) · numbers

3.1 Corporate governance: concepts and issues · Dec'23 Q6(a)

WHAT IT IS **Corporate governance (CG)** is how a company's affairs are managed with **fairness, honesty and good practices for the benefit of all stakeholders**, through policies with **checks and balances** between shareholders, directors and auditors. It is "more a **way of business life** than a mere legal compulsion". [SM 219]

Who	Definition
Milton Friedman	conducting business in line with shareholders' desire (make as much money as possible) while conforming to the basic rules of society in law and custom [SM 219]
Adrian Cadbury	SM WORDS "a system by which companies are **directed and controlled**. It has to do with **power and accountability**" [SM 219]
Narayana Murthy Committee	management accepting the shareholders' **inalienable rights as true owners** and its own role as **trustees**; commitment to values, ethical conduct, separating personal and corporate funds [SM 219]

FEATURES (Dec'23 Q6(a): "a statement of the features")

1. **a tool for transparency**: disclose the state of affairs to every stakeholder at every step; no suppression of material facts
2. **prudent and participative management**
3. **enhancing the value** of the enterprise (money, reputation, goodwill)
4. **accountability** to **all** stakeholders, not one
5. **innovation**
6. **professionalism and specialisation**: no conflict between duty and personal gain; competence
7. **stakeholder recognition**

[SM 220]

OBJECTIVES · BENEFITS · THEORIES

Objectives: balance stakeholders' conflicting interests · transparent, justifiable policies · an ideal Board composition (LODR) · optimum use of resources · reduce risk through due diligence · build trust and enterprise value. [SM 219–220]

Benefits: growth and stability · reputation · better use of funds and resources · long, steady growth · stakeholder confidence · competitive advantage · easier alliances. [SM 221–222]

Theories: stewardship (directors as stewards of assets) · **agency** (directors as shareholders' agents) · **stakeholder** (balance all stakeholders) · **trusteeship** (trust placed in directors). [SM 222]

	Ethics	Management	Corporate governance
foundation	values and principles of the inner self	objects and targets	the method of governing, with ethical values
level	all levels	all levels	**top level** (SM MCQ 2)
origin	emerges naturally	emerges with the situation	studied and experienced; established guidelines
regulation	not important	own rules (law still followed)	**important**: strict compliance
focus	–	**results** over method	**method** over results

[SM 220–221]

Why CG emerged: corporate failures (**Xerox, Enron, Global Crossing, WorldCom, MS Shoes, Harshad Mehta, Satyam**) · rise of institutional and retail investors · information in the public domain · regulation · volatility in share prices. [SM 221]

3.2 Governance codes, the ID code, CG ratings, LODR reports · Dec'24 Q4(b)

Committee	Set up by · key recommendations
Cadbury (the SM says "USA, SEC")	audit committees for listed companies, disclosed in the annual report · external auditor and finance director attend · it reviews the audit scope and the half-yearly and annual FS before the Board · may investigate and take outside advice · its chairman answers at the AGM [SM 223]
Rahul Bajaj (CII)	India's first formal code: listed companies with turnover **₹100 crore** or paid-up capital **₹20 crore** (whichever is less) to set up audit committees within **2 years**; it assists the Board on financial reporting and interacts with the statutory and internal auditors [SM 223–224]
K R Chandratre	draft Companies Bill: audit committee where paid-up capital is **₹5 crore**; auditors and the finance head attend **without vote**; reviews internal control and FS; chairman present at the AGM; penalties incl. imprisonment [SM 224]
Kumar Mangalam Birla (SEBI) → **Clause 49 / 49A** of the listing agreement (SM MCQ 15 = Jun'26 MCQ)	mandatory vs non-mandatory recommendations · FI nominees off Boards (except on default) · **half** the Board independent, **one-third** if the chairman is non-executive · audit committee of at least **3** non-executive directors, majority independent, one with finance knowledge, meeting at least **3 times** a year · remuneration and investor-complaints committees · a director on at most **10** committees, chairing at most **5** · a CG section in the annual report · postal ballot [SM 224–225]

Latest CG committee: the Kotak committee (SM MCQ 6). **Board level**: CG is set by the Act and LODR. **Below Board level**: each company's own code of conduct, service rules, whistle-blower policy, SOPs, run "**top-down**". [SM 225–226]

SCHEDULE IV: CODE FOR INDEPENDENT DIRECTORS

- **Guidelines:** integrity · objectivity · the company's interest · enough time · no extraneous influence · no abuse of position · avoid losing independence, and inform the Board if it is lost · help implement best CG practice. [SM 226]
- **Role:** independent judgment on strategy, performance, risk, resources and appointments · evaluate the Board and management · monitor performance · check the **integrity of financial information** and controls · protect stakeholders, especially **minority shareholders** · fix pay of executives, KMP and senior management · arbitrate between management and shareholders. [SM 226–227]
- **Duties:** update skills · take outside expert advice at the company's cost · attend Board, committee and general meetings · keep informed · do not obstruct · **report unethical behaviour or fraud** · no disclosure of confidential information or **UPSI**. [SM 227]
- **Appointment:** a balance of skills · **approved by shareholders** · explanatory statement that he is independent · a **letter of appointment** (term, expectations, committees, fiduciary duties, D&O insurance, code of ethics). [SM 227–228]

CG RATINGS · ESG · LODR COMPLIANCE REPORT

- **CG rating** = an opinion on a company's CG system and its relative standing. Done by **credit rating agencies** (SM MCQ 23 = Dec'25 MCQ). Its **5 uses**: information to stakeholders · an independent assessment for the company · relative standing (domestic and international) · a benchmark for improvement · investors can differentiate. [SM 228]
- **Assessment criteria (16):** Board structure · shareholder rights · accounting · ownership and control · professionalism · disclosures · share price · legal compliance · dividend payout · conflicts · RPTs · risk management · investor, customer and vendor grievances · CSR. [SM 228–229]
- **ESG rating** = Environmental + Social + **Governance** (Board, pay, ownership and control, accounting) ratings, each from key metrics. [SM 229]
- **Reg 27(2) LODR:** a listed entity files a **quarterly compliance report on CG** with the stock exchanges. **Annex I** quarterly · **Annex II** at year-end · **Annex III** 6 months after year-end · **Annex IV half-yearly** (loans, guarantees and comfort letters to promoter-group entities, from FY 2021-22). [SM 229]

⚠ Dec'24 MCQ (vii) asked when Annex IV is filed; the SM says **half-yearly**.

SUPPLEMENTARIES (SEBI LODR, MCQ MATERIAL)

- **Dec'26:** the **High Value Debt Listed Entity** threshold is raised from **₹1,000 crore to ₹5,000 crore** (from 22 Jan 2026). [Supp Dec'26 p.5]
- **Jun'26 (still applies):** Reg 23 RPTs: a **scale-based materiality** threshold linked to consolidated turnover · **Audit Committee approval for material RPTs of unlisted subsidiaries** · omnibus approvals relied on more · consolidated disclosure formats · the Audit Committee records the rationale and arm's-length nature. [Supp Jun'26 p.5]

3.3 Corporate governance in family business · Jun'25 Q3(b)

IFC definition: a company where the **voting majority is held by the controlling family**, including founders who intend to pass the business on to their descendants. Family businesses are the world's oldest and most dominant form: more than **70%** of businesses in many countries (Spain about **75%** of businesses, **65%** of GNP; Latin America about **60%** of GNP). In India, about **99%** of corporate houses are owned by individuals or families. [SM 230]

FEATURES IN INDIA

1. directors and senior managers are family or related
2. coteries form
3. control and ownership dilute with each generation
4. **conflicts of interest** between promoter and company
5. **emotional** decisions
6. a united family sidelines outside directors; a divided family brings confusion, delay and distrust
7. some have clear roles and **succession plans**
8. the chairman's personal image is the company's reputation
9. professionals avoid family firms
10. the death or disability of a senior member → a **leadership crisis**

[SM 230–231]

EVOLVING CG IN FAMILY COMPANIES (the Jun'25 answer)

i. **separating ownership from management**: promoters stay investors; a professional Board
ii. family members acquire **professional qualifications**
iii. promoters **encourage professionals**
iv. **focus on compliance** to protect reputation and share price
v. **role and leadership clarity** decided at Board level
vi. owners **honour managers' opinions**
vii. the family's social and emotional needs met through **separate trusts or foundations**

Listed family companies follow the same codified CG as others; the family's ownership does not change the compliance. *SM MCQ 26: the advantage of a family business is deep industry insight.* [SM 231]

3.4 CSR: the law (s.135) · asked in all 7 papers

WHAT IT IS **CSR** is business's commitment to operate accountably and contribute to **community welfare, especially the underprivileged**. Its core is **Concern, Care and Share (CCS)**. It is not occasional charity but part of the company's strategy. [SM 232]

WHO IS COVERED (s.135(1))

In the **immediately preceding financial year**: net worth ≥ **₹500 crore**, OR turnover ≥ **₹1,000 crore**, OR net profit ≥ **₹5 crore**. **Any one test** is enough. [SM 60]

A company that ceases to meet the tests for **3 consecutive financial years** need not have a committee or comply until it meets them again. [SM 127]

CSR committee: 3 or more directors, at least **one independent**. Where IDs are not required (unlisted public or private companies), no ID; a private company with **2 directors** has both; a foreign company has the person authorised to accept notices plus a nominee. The Board's report discloses the committee's composition. [SM 60–127]

No committee needed if the CSR obligation is up to **₹50 lakh**; the Board does its work (SM fill-in 13; True/False 5). [SM 250–252]

COMMITTEE FUNCTIONS (Jun'26 Q6(a): "any four")

1. **formulate and recommend a CSR policy** to the Board, showing the Schedule VII activities to be undertaken
2. **recommend the amount** of expenditure
3. **monitor the CSR policy** from time to time
4. institute a **transparent monitoring mechanism** for projects
5. **recommend projects** and modifications to the policy

[SM 60–127]

Board's duties: approve the policy after considering the committee's recommendation · **disclose it in the Board's report and on the website** · ensure the activities are undertaken · **spend at least 2%** of the **average net profit of the 3 immediately preceding financial years** (s.198), preferring the **local area**. [SM 60]

SPEND
≥ 2% of the 3-year average net profit (s.198) [SM 60]

→

NOT SPENT, NOT AN ONGOING PROJECT
reasons in the Board's report; transfer to a **Schedule VII fund** within **6 months** of the year-end [SM 60]

→

NOT SPENT, ONGOING PROJECT
transfer within **30 days** of the year-end to a **special (Unspent CSR) account**; spend within the next **3 years** [SM 60]

→

STILL UNSPENT AFTER 3 YEARS
transfer to the Schedule VII fund [SM 60]

DEC'26 SUPPLEMENTARY: ZCZP ON THE SOCIAL STOCK EXCHANGE (EFFECTIVE 27 MAY 2026)

Subscribing to eligible **Zero Coupon Zero Principal (ZCZP)** instruments of eligible **not-for-profit organisations registered on the Social Stock Exchange** is now a **CSR activity** (added to **Schedule VII**). It is capped at **10%** of the company's total CSR expenditure for the year. [Supp Dec'26 p.2]

⚠ NOT IN THE SM: PENALTY FOR NOT TRANSFERRING UNSPENT CSR (s.135(7))

Company: **twice the amount** required to be transferred, or **₹1 crore**, whichever is **less**. Every officer in default: **one-tenth** of that amount, or **₹2 lakh**, whichever is less.

3.4 CSR in practice: activities, implementation, evaluation · PTP Q6(a), Dec'24 Q5(a)

WHAT COUNTS (Schedule VII) · WHAT DOES NOT

Schedule VII lists the CSR activities: health, nutrition, sanitation, education, skills, inclusive growth, and so on. The list is exhaustive, but the Government says it is to be **interpreted liberally** (SM MCQ 10); e.g. "education" covers training and skills. The beneficiary should ultimately be the **poor and underprivileged** (SM MCQ 13: every CSR activity is for the beneficiary). [SM 236]

Not CSR: (a) **publicity** for products · (b) **compliance** with a law or Government order · (c) **employee or family benefits** · (d) infrastructure for **production or distribution** · (e) **political contributions**. *A school for disabled children where 3 of 200 are employees' children still qualifies, as that is incidental (SM MCQ 19, PTP). A donation to an **unrecognised** charity does not qualify (SM MCQ 20, Jun'25).* [SM 236–237]

IMPLEMENTATION STEPS · PARTNERS

a. **determine the thrust area** (e.g. primary education for poor children)
b. **identify the project** (which school; building, books, meals, scholarships)
c. **evaluate** the project
d. **implement**
e. **monitor**
f. **assess impact**

Collaborative projects: with other companies, with Government (PPP), or through specialised agencies. **Implementing agencies:** community organisations, Panchayats, NGOs, institutes, trusts and missions, self-help groups, Government and autonomous bodies, Mahila Mandals. (SM MCQ 7: ideally a section 8 company, trust or society; MCQ 17: a **foreign entity cannot** be an implementing agency.) [SM 237]

EVALUATION BEFORE SPENDING: DUE DILIGENCE (Dec'24 Q5(a))

Check: (1) nature of the project (2) its cost (3) independent or linked (4) collaborative (5) **beneficiaries** (6) technical feasibility (7) financial feasibility (8) implementation time (9) **measurable impact** (10) a monitoring mechanism. [SM 238]

How: a team of 2–3 officers inspects the documents and the site with a checklist and writes a structured report. The project report (by the agency or independent professionals) is evaluated. The report with recommendation goes to the **CSR committee → Board** (or a delegated authority). Then an **agreement or MOU**, payment in instalments, monitoring, and a **completion certificate** from an independent CA or chartered engineer. [SM 238]

Evaluating the agency (third-party projects): (a) documentation (b) site inspection (c) track record (d) beneficiary feedback (e) sponsors' feedback (f) interviews. The **first step is examining documents** (SM MCQ 12). [SM 239]

DIRECT vs THIRD-PARTY IMPLEMENTATION (PTP Q6(a))

	Direct by the company	Through an agency
plus	flexible · better supervision · quick decisions · little coordination · less cost (SM MCQ 21)	expertise · supervision at site · unbiased · single-point coordination · negotiated cost (SM MCQ 22)
minus	manpower · no domain knowledge · **no 80G benefit** · biased · corrective action undefined · negatives undocumented · no local knowledge or language · weak monitoring	may need more supervision · agency may lack domain knowledge · no 80G · biased if also a beneficiary · poor accounting · negatives undocumented · local dominance · weak monitoring

[SM 239–240]

Problems in implementation. Internal: choosing projects · financial mismatch · management not serious · finding the right people · internal references · indecision in the committee. **External:** political and social pressure · uncontrollable roadblocks · an inefficient agency · **diversion, siphoning, fraud**. [SM 240]

After spending: monitoring (periodic data, progress, corrective action) and **impact assessment**: preferably by an **independent agency**, focused on impact, done soon after the benefit, data-based; it feeds the next plan. [SM 240–241]

3.4 NVG → NGRBC, UNGPs, SDGs · Jun'23 Q2(c), Dec'25 Q6(a)

THE TIMELINE

- **2011 · NVGs**: the MCA's **National Voluntary Guidelines** on the Social, Environmental and Economic Responsibilities of Business (SM fill-in 10: 2011). [SM 233]
- **2011 · UNGPs**: the UN Human Rights Council endorsed the **Guiding Principles on Business and Human Rights** ("Protect, Respect and Remedy"): the State's duty to protect rights, business's duty to respect them, and access to **remedy** for victims. The UN Working Group urges national action plans. [SM 232–233]
- **2012**: SEBI mandated the **Annual Business Responsibility Report (ABRR)**, based on the NVGs, for the **top 100** listed companies, later the **top 500**. [SM 233]
- **2015 · SDGs**: the UN's 2030 Agenda, **17 goals**, with business as a driver of growth. **Paris Agreement** (Dec 2015; India ratified on **2 Oct 2016**; its commitments are the NDCs). [SM 233]
- **2015** → the NVGs revised to align with the SDGs and UNGPs = **NGRBC** (National Guidelines on Responsible Business Conduct): for **all businesses**, whatever their ownership, size, sector or location, including foreign MNCs; extended to suppliers and partners; the highest governance body oversees them; **9 principles** with core elements; an updated Business Responsibility Reporting Framework (BRRF). [SM 233–235]

THE 9 NGRBC PRINCIPLES: BUSINESSES SHOULD …

1. conduct and govern themselves with **integrity**, ethically, transparently and accountably
2. provide goods and services in a manner that is **sustainable and safe** (across the life cycle)
3. respect and promote the **well-being of all employees**, including in their value chains
4. respect the interests of, and be responsive to, **all stakeholders**
5. respect and promote **human rights**
6. respect, protect and restore the **environment** (precautionary principle)
7. influence **public and regulatory policy** responsibly and transparently
8. promote **inclusive growth** and equitable development
9. engage with and provide value to **consumers** responsibly

[SM 235–236]

Jun'23 Q2(c) asked principles 1 and 3. Write the SM's explanation of each: e.g. P1 = ethical behaviour in all operations as the basis of governance, with businesses accountable for adoption, implementation and disclosure; P3 = equity, dignity, well-being and decent work for all employees and the value chain, without discrimination.

3.5 Sustainability management and reporting · Jun'24 Q8(b), postal Q4(a)

MEANING · TRIPLE BOTTOM LINE (3P)

Sustainable development: meeting **present needs without harming the future** (Brundtland Report, "Our Common Future", **1987**). **Sustainable management**: running public affairs and businesses so as to protect resources for the future and stay economically and socially responsible. [SM 242]

Economic = **Profit**	today's decisions must not impair future living standards
Ecological / environmental = **Planet**	preserve scarce resources (genetic diversity, water, mines, forests); minimise effluents
Social = **People**	industry must not harm social security, values or welfare

[SM 242]

*Jun'24 MCQ: "ergonomic approach" is not one of the three. Dec'25 and Jun'26 MCQ: **paddy cultivation** is not a sustainable development activity (rain-water harvesting, solar and afforestation are).*

STEPS · AREAS · NEED

Steps (15): identify problems → set thrust areas → targets → evaluate and select projects → plan → tools and technology → innovate → schedule → organise → staff → direct → monitor → correct → review. [SM 242–243]

Areas: processes that use fewer natural resources · less waste, renewables, recycling, biodegradable packaging · stop deforestation, promote afforestation · effluent treatment · sustainable agriculture · carbon management. [SM 243]

Need and benefits (postal Q4(a)): unsustainable firms eventually cannot compete; communities and natural resources need it to last; it links the business with the wider environment; vision becomes practice; planning on sustainable values brings savings and performance; activities kept within the **Earth's carrying capacity**. [SM 243–244]

SUSTAINABILITY REPORTING: BRR → BRSR (Jun'24 Q8(b), Dec'24 MCQ)

- The UN **Principles for Responsible Investment (PRI)**: about **3,500** investor signatories integrating **ESG** into investment decisions. Most large companies report ESG profiles. [SM 244]
- SEBI prescribed an ESG reporting format in **November 2015**, and revised it in **May 2021** as the **Business Responsibility and Sustainability Report (BRSR)**, reporting performance against the **NGRBC** principles. Each parameter has **essential indicators (mandatory)** and **leadership indicators (voluntary)**. [SM 244]
- **Purpose:** quantified, standard disclosures comparable across companies (for investors) · stakeholder engagement · looking beyond financial figures. [SM 244]
- **Mandatory from FY 2022-23** for the **top 1,000 listed companies** by market capitalisation. [SM 244]

6 Model answers

MODEL ANSWER 1 · CSR APPLICABILITY FROM FIGURES (SM SOLVED CASE 1 = JUN'23 Q4(b) TYPE; JUN'24 Q4(a))

SM case: ABC Tyres Ltd (₹ crore). Turnover 700 / 650 / 920 / 1,010; net worth 402 / 423 / 480 / 530; net profit 14.5 / 15.7 / 16.8 / 18, for 2020-21 to 2023-24. (1) Is CSR applicable? (2) What is the minimum budget for 2024-25? (3) Is a committee needed? [SM 251]

1. **Applicable?** s.135(1) applies if, in the **preceding** year (2023-24), net worth ≥ ₹500 cr, turnover ≥ ₹1,000 cr, or net profit ≥ ₹5 cr. In 2023-24 **all three** are met (530, 1,010, 18), so **CSR applies**.
2. **Minimum budget for 2024-25** = 2% of the average net profit (s.198) of the **3 immediately preceding years** (2021-22 to 2023-24) = 2% × (15.7 + 16.8 + 18) ÷ 3 = 2% × 16.83 = **₹0.3367 crore ≈ ₹33.67 lakh**.
3. **Committee?** The company is covered, but its obligation (₹33.67 lakh) is **below ₹50 lakh**, so **strictly no committee is required**; the Board can discharge the committee's functions. Answer: "covered by s.135; no committee required as the obligation does not exceed ₹50 lakh". The SM's solution says "Yes, required".

⚠ THE SM'S SOLUTION HAS TWO SLIPS

It prints the budget as "**₹3.37 lakhs**". 2% of ₹16.83 crore is **₹33.67 lakh** (a decimal slip). It also says a committee is required, though its own exercise answer (fill-in 13) says no committee is needed when the obligation is up to **₹50 lakh**. In the exam, show the working; the examiner marks the method. [SM 251–252]

Jun'24 RR Ltd (same method): 2022-23: net worth 503 (≥ 500) and net profit 8.9 (≥ 5) → **covered** for 2023-24. Budget = 2% × (6.9 + 7.9 + 8.9) ÷ 3 = 2% × 7.9 = **₹15.8 lakh** → below ₹50 lakh → **no CSR committee required**. Then state the other obligations (policy, Board's report, website, unspent transfers).

MODEL ANSWER 2 · CSR COMMITTEE: APPLICABILITY AND FOUR FUNCTIONS (JUN'26 Q6(a) = ICMAI MQP Q6(a) VERBATIM) · 7 MARKS

1. **Applicability (s.135(1)):** a company with net worth ≥ **₹500 crore**, or turnover ≥ **₹1,000 crore**, or net profit ≥ **₹5 crore** in the immediately preceding financial year must constitute a **CSR Committee of the Board**. [SM 60]
2. **Composition: 3 or more directors, at least one independent**. Where no ID is required, two or more directors; a private company with 2 directors, both; a foreign company, its authorised person and a nominee. Disclosed in the Board's report. [SM 60–127]
3. **Exemptions:** no committee where the obligation is **up to ₹50 lakh** (the Board acts); and none after the company has **ceased to meet the tests for 3 consecutive years**. [SM 127–252]
4. **Four functions:** (i) **formulate and recommend a CSR policy** showing the Schedule VII activities; (ii) **recommend the amount** of expenditure; (iii) **monitor the policy** from time to time; (iv) set up a **transparent monitoring mechanism** for projects and recommend projects to the Board. [SM 60–127]
5. **Board's role (to round off):** approve and disclose the policy, ensure 2% of the 3-year average profit is spent, and transfer unspent amounts (6 months / 30 days rules). [SM 60]

Q The SM's own exercise for Module 3, with answers (SM 245–252)

1 3 Ps of the triple bottom line	**planet, people, profit**	14 ongoing-project CSR money spent within	**3 years**
2 CG is most relevant at	**top level**	15 Clause 49A based on ★	**Kumar Mangalam Birla**
3 undesirable practice	**using secret information from unfair sources**	16 CG is close to	**ethical conduct of business**
4 not sustainable development ★	**paddy cultivation**	17 a foreign entity cannot be	**CSR implementing agency**
5 CG practices in India are almost	**regulated**	18 why companies fail at CG	**narrow promoters, money, unhealthy competition: any**
6 latest CG committee	**Kotak**	19 school with 3 employees' children ★	**still CSR (incidental)**
7 ideal implementing agency	**s.8 company, trust or society: one of them**	20 does not qualify as CSR ★	**donation to an unrecognised charity**
8 economic approach relates to	**profit**	21 / 22 advantages, direct / third party	**all of the above / all of the above**
9 CG is more about	**a fair method of managing**	23 CG ratings by ★	**credit rating agencies**
10 Schedule VII to be	**liberally interpreted**	24 audit committee interacts with	**statutory and internal auditors**
11 CG balances the interests of	**all stakeholders**	25 audit committee recommendation	**if not accepted, Board records reasons**
12 first step in evaluating an agency	**examining documents**	26 family business advantage	**deep industry insight**
13 every CSR activity is for the	**beneficiary**		

True / False	
most CG provisions for listed companies are in LODR	**T**
stakeholders = shareholders only	**F**
CSR committee chairman must be an ID	**F**
signing the code of conduct is optional	**F**
a ₹90 lakh CSR budget needs a committee	**T**

Fill in the blanks	
CG is practised at … level	**top**
CSR turnover test, ₹ crore	**1,000**
committee in the listing agreement / CEO certificate on	**KM Birla / code of conduct**
ABRR = Annual … Responsibility Report	**Business**
max committees per director / remuneration schedule	**10 / V**
PRI / SDG	**Principles of Responsible Investment / Sustainable Development Goals**
voluntary CSR guidelines / CSR schedule	**2011 / VII**
no CSR committee if the budget is up to	**₹50 lakh**

Numbers: CSR ₹500 cr / ₹1,000 cr / ₹5 cr · 2% of the 3-year average · committee 3 (1 ID) · none up to ₹50 lakh · unspent 6 months / 30 days / 3 years · ZCZP cap 10% · stop after 3 years out of the tests · ABRR top 100 → 500 · BRSR top 1,000 from 2022-23 · SDGs 17 (2015) · NVGs 2011 · Brundtland 1987 · PRI 3,500 · KMB: half IDs / one-third, 10 / 5 committees, audit committee ≥ 3, meets 3× · HVDLE ₹5,000 cr.