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FOR CS PROFESSIONAL EXAM PREPARATION

CS Professional 2024 Question Paper · ESG - Principles and Practice

EXAM	YEAR	TYPE	SUBJECT
CS Professional	2024	Question Paper	ESG - Principles and Practice

DATE

December 2024

NEW SYLLABUS

531

Roll No. .....

Time allowed : 3 hours ***Maximum marks : 100***

Total number of questions : 6 ***Total number of printed pages : 15***

NOTE : *Answer* ***ALL*** *Questions.*

PART–I

1. Royal Chemicals Limited (RCL), a company listed with National Stock Exchange (NSE) is having 60% market share in paint manufacture industry. It also deals in petrochemicals, which are used in numerous household products like wax, detergents, dyes, carpeting, safety glasses, etc. RCL is one among the top 1000 companies listed on NSE. As per the latest audited financial statements as on March 31, 2024, its paid-up capital stood at ₹ 300 crore against its authorized Capital of ₹ 500 crore and it had a revenue of ₹ 2,250 crore.

RCL has thirteen Directors on its Board, of which five were independent directors. The Articles of Association of the Company restricts the maximum number of Directors to fifteen. RCL remains ever-conscious to corporate governance and ensures compliance with the statutory and legal provisions in both letter and spirit. Roya, an executive director, is chairperson of the Company and Minu is the only woman Director. The Company has constituted requisite committees as per the requirements of Companies Act, 2013 and SEBI LODR. The Audit Committee consists of five Directors as members—Aman, Jatin, Rohan, Keyn and Jitu.

Among the five independent directors, Rohan was reappointed on August 1, 2019 after completing his term of 5 years. His efficient performance was ranked first in the performance evaluation carried out as per SEBI guidelines. To recognise the outstanding results towards the Company's growth, the Board wanted to reappoint Rohan for the third term. The Board also sought Company Secretary's opinion in this regard.

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The Company had successfully concluded its Annual General Meeting (AGM) for the financial year ending March 31, 2024, on May 25, 2025, at its registered office at Pune. On the fateful day of AGM, while returning to Mumbai from Pune by road, after her re-appointment at AGM, a fatal accident claimed the life of Minu, thus snatching an efficient and trustworthy Director from the Company. Later on, a Board Meeting was held on August 9, 2024 and Neeru, a finance professional and daughter of deceased director Minu, was appointed as Director to fill the vacancy of woman director.

RCL is a growing company which wants to diversify its business into the sphere of agrochemicals and therefore, desires to bring on its Board Ojas, who is a chemical engineer with hands–on experience of about twenty years post his qualification in the field of agrochemicals and other petroleum products. Besides production, he is well versed in marketing of agrochemicals, both in India and abroad. It is hoped that he shall prove to be a valuable asset to the Company. Accordingly, in the Board Meeting held on August 9, 2024, Ojas was appointed as an additional Director. Ojas already held directorships in one dormant company, two Section 8 companies, eight public limited companies and nine private limited companies. However, out of nine private limited companies, two are subsidiaries of public limited companies.

Based on the above facts, answer the following questions :

(*a*) Do you think RCL's Board Composition is as per SEBI (Listing Obligations and Disclosure Regulations) Regulations, 2015 ? Also narrate the suggested Board Size as per NSE and Proxy Advisory Guidelines.

(*5 marks*)

(*b*) The Board of Directors are willing to appoint Rohan from August 1, 2024, for a term of another five years. Is such re-appointment valid ? Outline the tenure of independent directors and minimum attendance requirements at Board and Committee Meetings for the re-appointment of Directors as per IiAS Proxy Advisors Guidelines.

(*6 marks*)

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(*c*) Explain provisions of the Companies Act, 2013, related to the role of Nominations and Remuneration Committee, in performance evaluation of directors. The Company Secretary informs you that, Roya says it is not necessary to include in the Board's report, a statement indicating the manner in which formal annual evaluation has been made by the Board of its own performance, including independent directors. Is Roya's view correct ?

(*6 marks*)

(*d*) Referring to the provisions of the Companies Act, 2013, examine the decision of the Board to appoint Ojas as an additional director of the Company. Has Ojas violated the provisions relating to maximum number of directorships ? If yes, what would be the penalty ?

(*3 marks)*

2. (*a*) As at April 1, 2024, the composition of the Board of Directors of Cortel Ltd, an unlisted company comprised of seven directors as under :

Name	**Designation**
Aparan	Executive chairman (executive and non-independent)
Sesh	Managing Director and CEO (executive and non-independent)
Yuga	Women director (non-independent)
Jeeza	Independent director
Azad	Independent director
Jon	Independent director
Shen	Independent director

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The Audit Committee consists of Sesh, as Chairman, Aparan, Yuga and Jeeza as members. The majority of the members of the Audit Committee have the ability to read and understand the financial statements, but none of them have accounting or related financial management expertise. In July 2024, the Company went for an Initial Public Offer (IPO) and got its shares listed in a recognized Stock Exchange. With reference to SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, state how the Audit Committee should be constituted and whether the present constitution of the Audit Committee can continue after listing of its securities ?

(*5 marks*)

(*b*) On May 1, 2024, Sruja, who owns 3% equity shares in Crown Ltd, was appointed as a director in the Board Meeting. The Company was mainly into manufacturing of plastic products and toys and had commercial agreements and business transactions with Chariot Ltd, for purchase of raw materials. It came to the knowledge of Company's management that, Sruja is holding 1.5% and her husband is holding 3% of the equity share capital of Chariot Ltd. In the board meeting held on June 6, 2024, the Board of Directors proposed to discuss about price revisions for the raw material procured from Chariot Ltd. With reference to provisions of Companies Act, 2013, answer the following :

(*i*) Whether Sruja should make a disclosure of her interest in Chariot Ltd, assuming that the Company is going to have transactions with the said Company on a continuous basis ? If yes, when and at what frequency ?

(*ii*) Can she vote in the price revision resolution in the Board Meeting ?

(*4 marks*)

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(*c*) "Transparency is a pivotal feature in the market-based monitoring of companies and is central to shareholders ability to exercise their ownership rights on an informed basis which can help attract capital and maintain confidence in the capital markets." Adequate disclosures by corporates are mandated under various legislations such as the Companies Act, 2013 and SEBI (LODR) Regulations, 2015. In this background, state the disclosure requirements in listed company's websites in respect of the following :

(*i*) Placing of financial statements and other documents.

(*ii*) Vigil mechanism.

(*iii*) Nomination and remuneration policy.

(*6 marks*)

3. (*a*) Mehoon Textiles Ltd, is textile manufacturing company based in Tamil Nadu. The Company has been on a growth trajectory, due to savings in operating cost and increased demand for its products. The financial performance of the Company has been on a positive trend and since last two years, it is also spending towards Corporate Social Responsibility (CSR) as per the requirements of the Companies Act, 2013. The management of the Company is informed by the Company Secretary, that there are some new compliances relating to impact assessment of CSR spent. The management reaches out to you, to help them with the details of compliances.

In the light of the provisions of the Companies Act, 2013, read with the Rules made thereunder, prepare a brief note covering the following :

(*i*) When is a company obligated to undertake 'impact assessment' through an Independent Agency ?

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(*ii*) What is the ceiling of expenditure on impact assessment ?

(*iii*) Whether the impact assessment reports shall be placed before the Board and annexed to the Annual Report on CSR ?

(*5 marks*)

(*b*) 'A well-planned data governance framework covers strategic, tactical, and operational roles and responsibilities. It ensures data is trusted, well-documented, and easy to find within your organization, and that it's also kept secure, compliant, and confidential.' Outline the pillars of data governance framework and its advantages.

(*5 marks*)

(*c*) Tricolam group, is a very famous conglomerate based in Chennai, famous for its silk sarees and other clothing. There have been internal conflicts within the family members, who were part of the ancestral business. A dispute arose between the children of two brothers, with TVK, elder brother on one side and rest of the family members on the other side. Ms. Vani, a New York-based scientist, and TVK's elder sister's daughter, had sought a board seat in Tricolam Investments Ltd (TIL), the holding company of the Tricolam Group. She accused the family of denying her a seat due to her gender and was planning to approach Court for her rights. Highlight some unique challenges and governance issues in family businesses.

(*5 marks*)

Attempt all parts of either Q. No. 4 or Q. No. 4A

4. (*a*) Varen Power Supply Ltd (VPSL) is a power distribution company based in Nagaland. There have been frequent reports of accidents and injuries to Company's employees, in the course of their work. It was noted that the Company does not have any

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policy or guidelines for safety and health concerns of its employees considering the nature of industry in which it operates. This has led to several negative media reports, which have impacted the image of the Company and also resulted in huge fines by regulators. The Company Secretary appointed recently, informed the management that there is a growing recognition that employees are an integral part of an organization's stakeholders list and protecting their rights is an essential element of Corporate Governance. Health and Safety should be a key component of every company's Corporate Governance framework and implementation of 'Occupational Health and Safety Standards' of employees is very important.

In this background, explain the benefits which accrue to business organizations on implementation of Occupational Health and Safety Standards for employees.

(*5 marks*)

(*b*) Convexa Ltd. is a closely held cement manufacturing company with eight factories located across India. The promoter shareholders of the Company were planning to dilute their stake in the equity holding and were looking for suitable buyers. For the purpose of proposed sale of stake, they appointed Mike and Co LLP, as consultants. The promoters who were also on the Board of the Company, were keen to divest their shares to foreign investors and asked the consultants to develop a road map for transitioning the Company and its processes as per global benchmarking. The consultants highlighted that given the current scenario, the Environment, Social, Governance (ESG) is assuming significant importance both globally and in India and it also casts higher responsibility on the Board of Directors of the Company. The promoters were

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keen to align the Company's practices with best practices as per the ESG framework.

As a part of the consultant's team, prepare a detailed questionnaire about the Board's accountability on ESG aspects.

(*5 marks*)

(*c*) Arunima, an expert in management field, was appointed as independent director on the Board of Sarpen Ltd, a public company engaged in manufacture of petroleum products. Roopen, Company Secretary of the Company was asked to brief Arunima, for her on boarding, about various policies and procedures which were followed by the Company, including the guidelines provided to employees as per the standard governance policies. In one of the conversations, Arunima mentioned to Roopen, tough there are ethical practices across various policies, she would like to see a documented summary of the ethical practices being followed, to check if all the standard practices have been covered.

Prepare a brief report covering various standard ethical practices, which a business should adopt

(*5 marks*)

OR (Alternative questions to Q. No. 4)

4.A. (*i*) Ameya, has recently joined as a Regional Sales Manager of a pharmaceutical company. He has been given a sales target for the year, which is unusually high as per his assessment. On surveying the market, however, he observed that the competitors are achieving such targets. On a deeper analysis, he comes across unethical practices of giving gifts, payments and hospitality benefits to doctors by their medical representatives.

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This is prohibited by the Uniform Code of Pharmaceuticals Marketing Practices. Ameya, is unwilling to follow the same tactics and contacted the National Sales Manager in this regard, but he hinted at achieving the released targets at whatever cost. He has no other option but to carry out instructions and directed the Area Sales Managers to meet their respective targets while engaging in the practice of unethical incentives to the doctors. Ameya met his friend Arur, a Company Secretary, and in the course of conversation he was mentioning about the unethical practices he was witnessing regularly in his job. He inquired with Arur, if there is something similar which he encounters. Arur replied that he is required to follow the ICSI Anti-Bribery Code. Explain the contents of ICSI Anti-Bribery Code.

(*7 marks*)

(*ii*) John and Savo, have recently completed their MBA from Manipal University and were working on various ideas for start-ups. During their research, they noted that many Indian cities are facing a major problem of bio-medical waste management. Huge volume of wastes has meant that landfill sites are facing the problem of overcapacity. On the other hand, the waste-to energy plants constructed to solve the problem are also facing flak due to their inefficiency and release of poisonous pollutants. The manner of bio-medical waste disposal is identified as one of the main reasons behind this problem. They were planning to develop solutions using technology to address the bio-medical waste issue. In one of the conversations, Savo mentioned to John, due

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to technology and use of gadgets, the e-waste is also going to be a challenge in future. They were making a pitch for one of the investors proposing solutions to this problem. In this background, answer the following :

(*i*) What is bio-medical waste, elucidate various approaches used for disposal of bio-medical wastes.

(*ii*) Explain in brief 'e-waste management' and measures to reduce e-waste.

(*8 marks*)

PART–II

Attempt all parts of either Q. No. 5 or Q No. 5A

5. Hardware Solutions Ltd (HSL) offers to its client's hardware solutions, including chip manufacturing, planning and integration for a variety of uses. In a recently concluded Board meeting, while reviewing risk management practices of the Company, one of the Board members indicated about increased threat of new and severe non-financial risks which are now challenging basic assumptions about control effectiveness. For example, HSL so far has relied on automation to speed up processes, lower costs, and reduce manual errors. At the same time, the risks of large-scale breaches and violations of data privacy have increased dramatically, heightening during the COVID-19 crisis as digitization accelerated substantially. With less risk of manual errors but greater risk of large-scale failures, HSL will require to adjust their risk appetites and associated controls to reflect evolving risk profiles

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The Chief Risk Officer (CRO) of HSL agrees with the view of the Board member. He informed the Board that risk management strategies require revision and it should also cover the event of a major control breakdown, so that HSL is able to switch quickly to crisis-response mode, guided by an established Business Continuity Plan.

He further agreed that HSL has done little to prepare for crisis, seemingly taking an attitude that it won't happen here and hence risk culture also need to be improved. There is a consensus that HSL will need to build crisis-preparedness capabilities systematically. As the COVID-19 crisis has demonstrated, companies with well-rehearsed approaches to manage through a crisis have been more resilient to shocks. The CRO further briefed the Board that preparation in this respect would involve identifying the possible negative scenarios unique to HSL and the mitigating strategies to adopt before a crisis hits. That includes periodic simulation involving both senior management and the Board. There is a plan to maintain and periodically update a detailed crisis management register. Their strategies would typically include details on when and how to escalate issues, preselected crisis-leadership teams, resource plans and road maps for communications and broader stakeholder stabilization.

The internal auditor has also pointed out several control weaknesses and not appropriately recognising risk appetite in the context of control culture of the Company. In the background of aforementioned facts, answer the following questions :

(*a*) From a perspective of Companies Act, 2013 and SEBI regulations, discuss in detail the responsibility of Board of Directors relating to risk management.

(*5 marks*)

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(*b*) The Chief Risk Officer accepts that the Company has done little to prepare for the crisis. What type of crisis is HSL currently experiencing ? And also narrate other crisis, which the Company may encounter in future.

(*5 marks*)

(*c*) Explain Business Continuity Plan and its key components.

(*5 marks*)

(*d*) To protect against malicious threats or building a secure infrastructure for data storage for HSL, outline the Cyber Security Risk Management Process.

(*5 marks*)

OR (Alternative questions to Q. No. 5)

5.A. Allgood Ltd, a listed company, announced the appointment of Sumer, as the Company's executive director. Despite opposition by few shareholders, the management offered justifications for the new structure to be more independent and investor friendly. It indicated that foreign investors were optimistic about the future of the Company and expected better financial results. The Company has been actually witnessing and struggling to address certain corporate governance challenges. A small shareholder filed a law suit against the Board of Directors' misuse of corporate funds.

Rishi, the present Chairman and CEO, was working with the Company since last sixteen years and was a close family friend of Promoters. His leadership style being democratic, he was liked and praised by everyone. He was often found meeting people at all levels within the organisation and called for trying new things. His philosophy diminished conflicts and tensions in pursuit of goal setting and achieving. He believes that as long as dividend is paid to shareholders and earnings per share increases, the market values the stock.

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To address the changing business situations and the perception of the various stakeholders, Rishi had a detailed discussion with Sumer, to identify the further course of action, as Sumer had experience in managing crisis. Both of them evaluated various aspects threadbare and concluded that they should appoint some professional firm, who would do a detailed review and suggest the way forward to address these issues. In consultation with other directors and senior management, they appointed Mangal & Co., a consulting firm, to evaluate the present situation and suggest the best practices to mitigate these issues.

The consultants were provided with the following shareholding pattern as on March, 31, 2024 :

Type of Shareholder	**Holding %**
Promoters	51.60
Mutual funds	7.25
Domestic financial institutions and Banks	24.75
Foreign institutional investors	10.40
Corporate bodies	4.60
Individuals	1.40
Total	100.00

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Mangal & Co., performed a detailed evaluation of the Company's process and procedures, including its corporate governance practices and suggested that the Company should strengthen the role and position of a Company Secretary, who would not only be a focal point for the governance aspects, but also assist in the risk management process. Develop a robust system of internal controls and internal audit, which would support the management and also have a crisis management plan, which would help the Company to prepare a strategy in identifying and responding to threats. In the background of the above facts, answer the following :

(*i*) Explain the risks associated with governance in case of such corporates

(*ii*) Outline the role of Company Secretary in risk management

(*iii*) Explain internal control and indicate the difference in scope of risk management and internal control.

(*iv*) List the guidelines which the Company shall follow to establish a good crisis management plan.

(*5 marks each*)

PART-III

6. (*a*) Mani, Managing Director of Hoys Manufacturing Ltd, had completed his MBA from Standford. He always believed that the best way to expand a business, is by staying relevant and in sync with technology. He was part of various industry forums and was actively representing and voicing industry concerns to the government. He was attending one conference in Davos, wherein industrialists from different countries were presenting their views on the business dynamics and challenges. One of the speakers at the conference, was highlighting the importance of integrated reporting framework.

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Mani was inquisitive as he had not heard of this concept. Once he was back to India, he discussed this with Jay, Financial Controller and Vijay, Company Secretary of the Company. Vijay explained that integrated reporting is part of an evolving corporate reporting system. The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates, preserves or erodes value over time. Mani was inquisitive to know more about integrated reporting and he told Vijay, that these details should be discussed with other Board of Directors as well.

In this context, prepare a detailed report explaining integrated reporting and its benefits. Also elucidate the challenges in implementation of integrated reporting.

(*8 marks*)

(*b*) Ranil and Wicky, both graduates from IIT Chennai, wanted to setup a consulting firm in the governance and social sphere, given its relevance in the current scenario. They had done quite some research and noted that the ESG compliances are picking up pace, as more corporates, are looking forward to be ESG compliant and demonstrate their adherence to ESG principles. Meeting strong ESG standards, is a positive governance indication for organizations. It is estimated that the new mandate will impact not only more than 50,000 large and listed companies based in Europe, but also companies based outside of the region, having their subsidiaries or branch offices. Ranil and Wicky were making a presentation to one of the Directors of Xyloc Plc.., about the ESG requirements, which included its compliances, benefits and challenges.

In this context, explain the key changes companies should establish to prepare for the challenges ahead in accordance with the new ESG reporting mandates and regulations.

(*7 marks*)

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