

## Report of the Directors on CORPORATE GOVERNANCE

CRISIL has been practicing the principles of good corporate governance over the years. The Company has adopted best practices for corporate governance, and disclosure standards, and enhanced shareholder value while protecting the interests of other stakeholders, clients, suppliers and its employees.

The Directors present below the Company's policies and practices on corporate governance.

### BOARD OF DIRECTORS:

#### Size and Composition of the Board:

The Board of Directors has eight members. The Board comprises of four independent Directors. As per the Articles of Association of the Company, the Board can have up to 15 members. The Company has one alternate Director. The Chairman is a non-executive Director. Mr. B. V. Bhargava, Mr. H.N. Sinor, Ms. Rama Bijapurkar and Dr. Nachiket Mor are the Independent Directors on the Board of the Company.

#### Membership Term:

As per the Articles of Association of the Company, at least two-thirds of the Board of Directors should be retiring Directors. One-third of these Directors are required to retire every year and if eligible, the retiring Directors qualify for re-appointment. The Board has adopted the following guidelines regarding the appointment and tenure of a non-whole time Director on the Board :-

1. No Director should hold directorships in more than ten Indian public limited companies.
2. Every Director is expected to attend at least 60% of the Board meetings held in a year. While re-appointing Directors on the Board and Committees of the Board, the contribution and attendance record of the concerned Director should be considered.
3. The change of Directors on the Board of CRISIL, if carried, would be so accomplished that at no point of time, the average term of the members on the Board is reduced unreasonably.
4. Whole-time Directors are appointed by the shareholders for a maximum period of five years but can be re-appointed on completion of their term, if eligible.

#### Criteria for Board Membership:

The members of the Board of Directors of the Company are eminent persons of proven competence and integrity. The Board comprises individuals with personal characteristics and core competencies such as the recognition of the importance of the Board's tasks, integrity, sense of accountability and track record of achievements. Besides having financial literacy, experience, leadership qualities and the ability to think strategically, the Directors have a significant degree of commitment to the Company and devote adequate time for the meetings, preparation and attendance. Board members possess the education, expertise, skills and experience in various sectors and industries required to manage and guide the Company.

None of the Directors is a relative of a Whole-time Director or of an independent Director and is expected not to serve any independent or executive position in any company that is a direct competitor. None of the non-whole-time Directors of the Company have any pecuniary relationships or transactions with the Company except payment for legal services provided by Singhania & Partners (Firm) in which Mr. Ravinder Singhania is a partner. Whole-time Directors are excluded from serving on the Board of any other entity unless the said entity has interests that are germane to the business of the Company.

### Succession Policy:

The Board constantly evaluates the contribution of its members and recommends to shareholders their re-appointment periodically as per the statute. Whole-time Directors are appointed by the shareholders for a maximum period of five years at one time, but are eligible for re-appointment upon completion of their term. Non-whole-time Directors do not have any term but retire by rotation as per the law.

The Board has adopted a retirement policy for its members. The maximum age of retirement of Whole-time Directors is 58 years, which is the age of superannuation for the employees of the Company.

### Memberships of other boards:

Independent Directors are not expected to serve on the boards of competing companies. No Director of the Company is a member of more than ten committees or act as chairman of more than five committees across all Indian public limited companies in which he/she is a Director. Furthermore, every Director informs the Company about the committee positions he/she occupies in other companies and notifies the changes as and when they take place. The details of other directorships held by the Company's Directors in public limited companies are given below:

Name of the Director	Memberships on other Boards	Committee Memberships*
BV Bhargava	Excel Crop Care Limited	Chairman, Audit Committee
	Grasim Industries Limited	Chairman, Audit Committee
	ICICI Lombard General Insurance Company Limited	-
	J.K. Lakshmi Cement Limited	Chairman, Audit Committee
	Supreme Industries Limited	-
	L&T Infrastructure Finance Company Limited	-
	Grasim Bhiwani Textiles Limited	Chairman, Audit Committee
	Lakshmi Precision Screws Limited	-
	L&T Finance Holdings Limited	Member, Audit Committee
	Maxx Mobile Communications Limited	Member, Investor Grievance Committee
	HN Sinor	3i Infotech Limited
ICICI Venture Funds Management Company Limited		Member, Audit Committee
ICICI Lombard General Insurance Company Limited		Member, Audit Committee
Tata Investment Corporation Limited		Chairman, Audit Committee
Tata Capital Limited		Member, Audit Committee
Tata Motors Finance Limited		-
Themis Medicare Limited		Member, Audit Committee
Sahara India Financial Corporation Limited		Member, Audit Committee
Zoroastrian Co-operative Bank Limited		-

Name of the Director	Memberships on other Boards	Committee Memberships*
Rama Bijapurkar	CRISIL Risk and Infrastructure Solutions Limited	-
	Axis Bank Limited	-
	Mahindra Holidays & Resorts India Limited	Member, Audit Committee
	Mahindra and Mahindra Financial Services Limited	Member, Audit Committee
	ICICI Prudential Life Insurance Company Limited	-
Nachiket Mor	-	-
Deven Sharma	-	-
Thomas Schiller	CRISIL Risk and Infrastructure Solutions Limited	-
David Pearce	CRISIL Risk and Infrastructure Solutions Limited	-
Ravinder Singhania (Alternate Director)	CRISIL Risk and Infrastructure Solutions Limited	-
	Unitech Limited	-
	Assets Care Enterprise Limited	-
Roopa Kudva	India Index Services & Products Limited	-
	CRISIL Credit Information Services Limited	-
	Irevna LLC, US	-
	Irevna Limited, UK	-
	CRISIL Irevna Poland Sp. Z.o.o	-
	CRISIL Irevna Information Technology (Hangzhou) Co. Ltd	-

\* Memberships/Chairmanships in Audit Committee and Shareholders'/Investors' Grievance Committee is considered.

#### Details of Shareholdings of Directors as on December 31, 2010

Name of the Director	No. of shares held
BV Bhargava	-
HN Sinor	-
Rama Bijapurkar	-
Nachiket Mor	-
Deven Sharma	-
Thomas Schiller	-
David Pearce	-
Ravinder Singhania, Alternate Director	-
Roopa Kudva, MD & CEO	16,000

### Responsibilities:

The Board looks at strategic planning and policy formulation. The Board meets at least once in every quarter to review the Company's operations and the maximum time gap between any two meetings is not more than four months. During the year ended December 31, 2010, the Board met six times—on February 18, April 16, July 22, September 9, October 18, and December 20. Most Board meetings were well-attended as shown below. The agenda of board meetings is sent to all the Directors well in advance and contains all the relevant information. The Company has an executive committee comprising the Managing Director and a team of senior management personnel with proper demarcation of responsibilities and authority. The Managing Director is responsible for corporate strategy, planning, external contacts and Board matters. The senior management personnel heading respective divisions are responsible for all day-to-day operations-related issues, profitability, productivity, recruitment and employee retention for their divisions. Mr. Raman Uberoi heads the domestic ratings business, Mr. GV Mani heads the global research and analytics business, Mr. Mukesh Agarwal heads the research business, and Mr. Arun Panicker oversees operations. Mr. M Ramsekhar has recently joined as CEO for CRISIL Risk & Infrastructure Solutions Ltd. (CRIS) and heads the infrastructure advisory and risk solutions business, which is conducted by a wholly owned subsidiary.

Name of the Directors	No. of Board meetings held	No. of Board meetings attended	Last Annual General Meeting attendance
BV Bhargava	6	6	Yes
HN Sinor	6	5	Yes
Rama Bijapurkar	6	5	Yes
Nachiket Mor	6	4	Yes
Deven Sharma	6	3#	Yes
Thomas Schiller	6	5	Yes
David Pearce	6	4	Yes
Roopa Kudva	6	6	Yes

# In addition to the three Board meetings attended in person, Mr. Deven Sharma had attended the other three board meetings through tele-conference.

There were no personal transactions by the directors involving a conflict of interest with the Company. The Company has a Code of Ethics and Personal Trading Policy for Directors and employees. The Code of Ethics contains policies on confidentiality, gifts and favours, and false and misleading information or disclosures. The Personal Trading Policy contains regulations, policies, procedures and restrictions relating to personal investments by the Directors and employees. The policy also prohibits trading in securities of any foreign or Indian listed company on the basis of unpublished price-sensitive information.

### Remuneration Policy:

#### 1) Remuneration to non-whole-time directors:

Non-whole-time directors are paid sitting fees for each meeting of the Board or its committee attended by them and are also eligible for commissions. The commission payable to each non-whole-time Directors is limited to a fixed sum per year as determined by the Board, and is revised from time to time, depending on individual contribution, the Company's performance, and the prevailing norms. The members of the Company at the meeting held on April 27, 2007 had authorised payment of commission to the non-whole-time directors up to 3 per cent of the net profits of the Company determined in

accordance with the provisions of Sections 198, 349 and 350 of the Companies Act, 1956, subject to the approval of the Central Government. The Company has received the approval of the Central Government to pay remuneration not exceeding 3 per cent of the net profits to the non-whole-time directors for a period of five years with effect from January 01, 2008.

2) **Whole-time Directors and other employees of the Company:**

The remuneration and reward structure for Whole-time Directors and employees comprises two broad components—short-term remuneration and long-term rewards. The Compensation Committee, comprising two independent directors, determines the remuneration of Whole-time Directors and determines guidelines for remuneration payable to the employees. These guidelines are as under:

a) Annual remuneration:

Annual remuneration refers to the annual compensation payable to Whole-time Directors and employees of the Company. This comprises two parts—a fixed component, and a performance-linked variable component based on the extent of achievement of the individual's objectives. Every employee signs a performance contract, which clearly articulates the key performance measures for that particular defined role. The performance-linked variable pay is directly linked to the performance on individual components of the performance contract. An employee's variable pay is, therefore, directly dependent on key performance measures that represent the best interests of shareholders.

The total remuneration is set at levels to attract, motivate, and retain high-calibre, and high potential personnel in a competitive global market. The total remuneration level is reset annually based on a comparison with the relevant peer group in the Indian market, established through an independent compensation survey. In addition to the above, incentives linked to the performance of the business unit are payable if the business unit performs better than expected. The remuneration levels and the performance contracts are finalised under the overall supervision, guidance, and approval of the Compensation Committee.

b) Long-Term Rewards:

Long-term rewards primarily comprise a long-term incentive plan, under which incentives are granted to eligible key employees based on their contribution to the profitability of the Company, relative position in the organisation, and length of service. The plan is supervised by the Compensation Committee. Non-whole-time directors are not eligible for participation in the plan.

**Sitting fees and commission paid to non-whole-time Directors**

(In Rupees)

Name of Directors	Sitting Fees	Commission	Total
BV Bhargava	320,000	2,285,280	2,605,280
HN Sinor	160,000	2,094,840	2,254,840
Rama Bijapurkar	120,000	2,094,840	2,214,840
Nachiket Mor	-	2,094,840	2,094,840
Deven Sharma	60,000	1,142,640	1,202,640
Thomas Schiller	180,000	1,428,300	1,608,300
David Pearce	180,000	1,142,640	1,322,640
Ravinder Singhania (Alternate Director)	-	-	-
<b>TOTAL</b>	<b>10,20,000</b>	<b>12,283,380</b>	<b>13,303,380</b>

### Remuneration Paid to Whole-time Director for the year ended December 31, 2010

(Rupees Lakh)	
Name	Roopa Kudva
Salary	130.02
Perquisites	4.90
Variable Pay/Commission	106.70
Provident Fund & Gratuity	4.68
Appointment valid till	July 27, 2012
Notice period	3 months

#### Dividend Policy:

CRISIL believes in maintaining a fair balance between cash retention and dividend distribution. Cash retention is required to finance acquisitions and future growth, and also as a means to meet any unforeseen contingency. CRISIL has also been conscious of the need to maintain stability in its dividend payout over the years. From 2008, CRISIL has commenced the practice of paying dividend on a quarterly basis.

#### BOARD COMMITTEES

The Board has constituted committees consisting of Whole-time and Non-whole-time Directors to focus on the critical functions of the Company.

#### Rating Committee:

The Rating Committee comprises of one Non-whole-time Director, Mr. BV Bhargava (Chairman), and one Whole-time director Ms. Roopa Kudva and other senior personnel of the Ratings Division. The Committee takes decisions on new ratings and existing rating reviews, approves new products, criteria and parameters. The Committee meets regularly.

#### Audit Committee:

The Audit Committee comprises of four non-executive directors who are well-versed with financial matters and corporate laws. Mr. HN Sinor is the Chairman of the Audit Committee. Mr. BV Bhargava, Dr. Nachiket Mor, and Mr. David Pearce are other members of the Audit Committee. The chairman of the Audit Committee remains present at the Annual General Meeting. The external and internal auditors of the Company are invited to attend the Audit Committee meetings to brief members. The Company Secretary is the secretary of the Committee. The Audit Committee met four times in 2010—on February 18, April 16, July 22, and October 18.

Director	No. of committee meetings held	No. of committee meetings attended
HN Sinor	4	3
BV Bhargava	4	4
Dr. Nachiket Mor	4	4
David Pearce	4	4

The terms of reference for the Audit Committee are as follows-

1. Overseeing the financial reporting process to ensure fairness, sufficiency and credibility of financial statements
2. Recommendation of the appointment and removal of statutory auditors and fixation of their remuneration and approving their payment for any other services rendered by them

3. Reviewing of the quarterly and annual financial statements before submission to the Board
4. Reviewing the adequacy of the internal control systems
5. Reviewing the adequacy of the internal audit functions, discussing any significant findings and follow thereon
6. Discussing on the nature and scope of audit with the statutory auditors
7. Reviewing the financial and risk management policies
8. Examination of reasons for substantial defaults, if any, in payment to stakeholders
9. Providing direction to the internal audit functions and monitors the quality of internal and statutory audit
10. Review the functioning of the Whistle Blower mechanism

The composition, procedures, role, powers and the terms of reference of the Audit Committee are as stipulated in Section 292A of the Companies Act, 1956 and clause 49 of the listing agreement.

#### Investment Committee:

The Investment Committee comprises of three non-executive Directors - Mr. BV Bhargava (Chairman), Mr. Thomas Schiller, Mr. David Pearce, and one executive director, Ms. Roopa Kudva. The Investment Committee lays down policy guidelines and procedures for investing the Company's funds, and reviews this activity at regular intervals. The Investment Committee met once during the year—on October 18, 2010.

Director	No. of committee meetings held	No. of committee meetings attended
BV Bhargava	1	1
Thomas Schiller	1	-
David Pearce	1	1
Roopa Kudva	1	1

#### Investors Grievance Committee:

The Investors Grievance Committee comprises of two non-executive directors, Mr. BV Bhargava (Chairman), Mr. Thomas Schiller, and one executive director, Ms. Roopa Kudva. The Committee periodically reviews the status of investor grievances and redressal of the same. The Committee met four times in 2010—on February 18, April 16, July 22, and October 18.

Director	No. of committee meetings held	No. of committee meetings attended
BV Bhargava	4	4
Thomas Schiller	4	3
Roopa Kudva	4	4

#### Compensation Committee:

The Compensation Committee comprises of five non-executive directors—Mr. BV Bhargava (Chairman), Mr. Deven Sharma, Ms. Rama Bijapurkar, Mr. Thomas Schiller, and Mr. HN Sinor. The chairman of the Compensation Committee was present at the Annual General Meeting held on April 16, 2010. The Committee ensures that a proper system of compensation exists to provide performance-based compensation to all employees of the Company. The Committee considers and approves salary, commission and other emoluments payable to Whole-time directors and employees of the Company. The annual compensation of Whole-time Directors is determined by the Compensation Committee within the limits set by the shareholders at the general meeting. It also recommends to the Board, the remuneration payable to non-whole-time directors, within the limits laid down by the shareholders at the general meeting and in accordance with other applicable laws. The Committee met once during the year—on February 18, 2010.

Director	No. of committee meetings held	No. of committee meetings attended
BV Bhargava	1	1
Rama Bijapurkar	1	1
Thomas Schiller	1	1
Deven Sharma	1 <sup>#</sup>	-
HN Sinor <sup>*</sup>	-	-

\* Mr HN Sinor has been appointed member of the Compensation Committee with effect from December 20, 2010.

# Mr. Deven Sharma attended the committee meeting by tele-conference.

#### **Allotment Committee:**

The Allotment Committee has been formed to complete the formalities prescribed under the Companies Act, 1956, relating to allotment of shares and to authorise officials of the Company to file forms and returns with regulatory authorities. The Allotment Committee comprises of two non-executive directors— Dr. Nachiket Mor (Chairman), and Ms. Rama Bijapurkar—and one executive Director, Ms. Roopa Kudva. No Allotment Committee meeting was held during the year as no shares were allotted during the year.

## **SHARE HOLDERS**

#### **Means of Communication:**

1. Half-Yearly Newsletter: The Company sends a half-yearly newsletter giving details of the Company's financial performance, including a summary of significant events in the last six months to shareholders.
2. Quarter and annual financial results are published in the leading national and regional newspapers, and displayed on the Company's website.
3. News releases, press releases and presentations made to investors and analysts are displayed on the Company's website.
4. The annual report is circulated to all members, and is also available on the Company's website.

The Management Discussion and Analysis Report form a part of the annual report.

In case of appointment or re-appointment of a Director, members are provided a brief resume of the Director, the nature of his/her expertise in specific functional areas, the names of companies in which he/she holds directorship, and membership of Committees of the Board.

#### **Grievance Redressal:**

The Board has appointed an Investor Grievance Committee to review and redress complaints received from shareholders. The Committee meets periodically to consider the status of the investor grievances received and redressed along with the ageing schedules of pending complaints. The Board has authorised Mr. Shrikant Dev, Company Secretary, to approve the transfer and transmission of shares.

A secretarial audit is conducted by an independent practising company secretary on quarterly basis, to confirm reconciliation of the issued and listed capital, dematerialised capital, and status of the register of members.

The Auditors' Certificate of Corporate Governance is annexed with the Directors' report and will be sent to the stock exchange at the time of filing the annual returns of the Company.

**General Body Meetings:**

The location, time and venue of the last three Annual General Meetings were as under:

Nature of Meeting	Date and Time	Venue
Twenty First Annual General Meeting	April 23, 2008 at 3.30 pm	Babasaheb Dahanukar Hall, Maharashtra Chamber of Commerce, Industry & Agriculture, Oricon House, Fort. Mumbai – 400001.
Twenty Second Annual General Meeting	April 28, 2009 at 3.30 pm	Rangaswar Hall, 4th floor, Yashwantrao Chavan Pratishthan, Gen. Jagannath Bhosale Marg, Next to Sachivalaya Gymkhana, Mumbai 400 021.
Twenty Third Annual General Meeting	April 16, 2010 at 3.30 pm	Rangaswar Hall, 4th floor, Yashwantrao Chavan Pratishthan, Gen. Jagannath Bhosale Marg, Next to Sachivalaya Gymkhana, Mumbai 400 021.

No Special Resolutions were passed at the last three general body meetings.

**Postal Ballot System:**

The Central Government has notified the Companies (Passing of Resolution by Postal Ballot) Rules 2001, which lays down the businesses required to be passed by postal ballot.

The Company has passed the following resolutions by postal ballot for the period from the date of the last Annual General Meeting till the date of this report:

Sr. No	Date of Declaration of Postal Ballot Result	Description
1.	October 18, 2010	Special Resolution under Section 31 of the Companies Act, 1956 for alteration of Articles of Association
2.	October 18, 2010	Special Resolution under Section 77A of the Companies Act, 1956 for the purchase of its own shares
3.	February 4, 2011	Special Resolution for issue and offer of Equity Shares of the Company to employees and Whole-time Director(s) of the Company under section 81(1A) and other applicable provisions of the Companies Act, 1956 and SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999
4.	February 4, 2011	Special Resolution for issue and offer of Equity Shares of the Company to employees and Whole-time Director(s) of the subsidiary companies of the Company under section 81(1A) and other applicable provisions of the Companies Act, 1956 and SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999

**Disclosures:**

During the year, there were no material related-party transactions i.e. transactions of the Company of a material nature with its promoters, the Directors or the management, their subsidiaries or relatives etc. that may have a potential conflict with the interests of the company at large. Other related-party transactions are mentioned in the notes to the accounts.

There was no non-compliance by the company and no penalties or strictures were imposed on the Company by the Stock Exchange or SEBI, or any statutory authority on any matter related to the capital markets during the last three years.

The Company has complied with all the mandatory requirements of clause 49 of the Listing Agreement. The Company has also complied with the non-mandatory requirements relating to publication of half-yearly results, having unqualified financial statements, having a whistle-blower policy and also has a mechanism for evaluating non-executive board members.

**CRISIL Code of Conduct for Directors and Senior Management:**

The Board of Directors of CRISIL has adopted the Code of Conduct for Senior Management; the same is available on the website of the Company.

**Whistle-Blower Policy:**

The Company has a Whistle-Blower Policy, whereby employees are free to report violations of laws, rules, and regulations, or unethical conduct to the Audit Committee. There has been no instance of employees acting under this policy.