

# Disclosure and Reporting Practices - A Study of Public Sector Banks

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## Abstract

*Corporate governance is an aspect of corporate functioning that continues to increase in prominence. This assumes greater importance when it comes to public sector banks that are capitalising on government's - and ultimately, public's money. The author discusses the various aspects of corporate governance at four of the largest public sector banks (PSBs) listed in the BSE's top 100. The author compares the level adherence of corporate governance guidelines for the Financial Year 2020-21 at these banks. The present degree of adherence is then compared with the previous studies in this area. In the study, the corporate governance data is analysed on eighteen parameters to understand the progression of corporate governance at these PSBs.*

**Keywords:** Public Sector Banks, LODR (2015), Companies Act 2013, Banking Regulation Act 1949, Reserve Bank of India Act, 1934.

## Introduction

Banks are custodians of public savings. And PSBs - capitalised with government money which is ultimately the capital that belongs to the people of India - assume double importance. In addition, given the size of the PSBs and their systemic importance to the financial system of the country, it is vital that they be run in strict adherence with principles of fairness, equity and transparency.

Corporate Governance is an essential measure of fair, equitable, and transparent behaviour of an organisation. This is due to the fact that corporate governance is founded on the principles of transparency, accountability and security. These; three principles provide the necessary foundation for forming solid professional relationships among its stakeholders in the running of a successful company. Therefore, corporate governance at PSBs is an essential pillar on which the financial system of the country, indirectly stands.

## Objectives of the Study

The main objectives of the study are:

1. List the Corporate Governance Disclosure Practices implemented in the Indian Banking sector. Based on market capitalisation four banks in the public sector have been the subject of research.
2. To ascertain the Corporate Governance practices followed in the State Bank of India (SBI), Punjab National Bank (PNB), Bank of Baroda, and Canara Bank. (Public Sector Banks listed in BSE Top 100 )
3. To analyse the following Corporate Governance Disclosure Practices on the basis of Mandatory and Non-Mandatory requirements issued by Banking Regulation Act 1949, SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 and amendments 2018 and Companies Act 2013.

### Sample Size and Collection of Data

The sample comprises the top four public sector banks. The FY 2020-21 has been taken as the period for studying the corporate governance practices applied by the SBI, the PNB, the Bank of Baroda and the Canara Bank. Information required for this research paper, has been gathered from secondary sources.

### Findings and Analysis

The present research paper emphasises on

#### 1 Corporate Governance Philosophy

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
1	Corporate Governance Philosophy	Yes	Yes	Yes	Yes

All four banks under consideration have laid down their philosophy on the Code of Governance.

analysing the degree of adherence to Governance and Disclosure requirements by the top four public sector banks. These requirements have been laid under the Companies Act 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015.

Eighteen broad parameters have been selected for this study. The sole motive of the study is to understand the level of implementation of the statutory and non-statutory guidelines by the banks.

All the banks are committed to the best practices both in letter and spirit.

#### 2 Structure of the Board and the Board Meetings Conducted During the Year

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
i)	Not less than 50% of the BOD should comprise non-executive directors / independent directors	Yes	Yes	Yes	Yes
ii)	At least one woman director.	No	Yes	Yes	Yes
iii)	Where the Chairman is a Non-Executive Director - At least 1/3 of the Board should comprise NED. When the Chairman is Executive- At least 1/2 of the Board must comprise NED	No	Yes	Yes	Yes
iv)	Minimum of four BOD meetings in a year.	Yes	Yes	Yes	Yes
v)	Attendance record of the Board meetings	Yes	Yes	Yes	Yes

All banks comply with the requirements of the composition of the Board of Directors. However, SBI has missed compliance on two of the five defined parameters.

#### SBI Board did not Have a Woman Director

The woman director on the SBI board - Dr. Purnima Gupta, retired on 31st January; 2021. Up to her retirement, she attended 11 of the 14 Board of Director meetings for the financial year. Three meetings that were held after the date of her retirement, had no women director.

#### SBI Board Composition also Missed Compliance

The SBI chairperson is an executive director. Therefore; as per regulation 17(1) of the listing regulations {governance parameter (iii) above}, at least half of the Board must be non-executive. However; of the thirteen directors on the SBI Board, only five directors are non-executive. The minimum number of non-executive directors should have been seven. So; the SBI board is short of two non-executive directors on the Board.

#### 3 Chairman and CEO Separation

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
i)	Promoter Executive Chairman- cum-MD/CEO	No	No	No	No
ii)	Non-Promoter Executive Chairman-cum-MD/CEO	Yes	Yes	No	No
iii)	Promoter Non-Executive Chairman	No	No	No	No

iv)	Non-Promoter Non-Executive Chairman	No	No	Yes	Yes
v)	Non-Executive Non-Executive Chairman	No	No	No	No

Since these are Public Sector banks, by definition there are no individuals who can be promoters. Therefore; we look only at parameters for the non-promoters. SBI and PNB have Executive Chairmen heading the Board of directors, while Bank of Baroda and Canara have a non-executive chairman running their respective boards.

#### 4 Disclosure of tenure & age limit of board of directors

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
4)	Disclosure of tenure & age limit of directors	Yes	Yes	Yes	Yes

Information concerning tenure and age limit has been stated clearly by the banks under consideration. This aspect of corporate governance has been fully complied with.

#### 5 Disclosures Regarding Non-Executive Directors (NED)

S.No.		SBI	PNB	Bank of Baroda	Canara
i)	Definition of NED	Yes	Yes	No	Yes
ii)	Details of familiarisation program imparted to the NED's should be disclosed in the annual report	Yes	Yes	Yes	Yes
iii)	Meeting of the NEDs	Yes	Yes	No record available	No record available
iv)	Disclosure of the terms of appointment on the website of the bank	Yes	Yes	Yes	Yes
v)	Formal letter of appointment of NEDs	Yes	Yes	Yes	Yes
vi)	Number of Directorship for non executive directors	Yes	Yes	Yes	Yes

For newly elected directors, orientation programs were organised during the year 2020-21. These included the structure of the organisation, overview of various business groups of the bank, developments in research information technology, cyber security, human resource – training and development, etc.

#### 6 Disclosure of Remuneration

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
6)	Disclosure of :				
i)	Remuneration policy	Yes	Yes	Yes	Yes
ii)	Remuneration of directors	Yes	Yes	Yes	Yes

All the banks under consideration have a well-defined remuneration policy in place. Information about salary, allowances, and sitting fees received by the directors has been explicitly mentioned in the annual report. The directors remuneration is in accordance to the guidelines of Government of India . In all the public sector banks, NEDs are paid only the sitting fees as fixed by the Government of India.

#### 7 Number of Directorships in Different Organisations

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
7)	Information on position of director, and member of several committees across all corporates	Yes	Yes	Yes	Yes

The disclosures by the respective banks clearly mention the directorships, committee memberships and Chairmanships of each of its directors. This is helpful to investors to ascertain any potential conflicts of interests that the board members may face.

### 8.Code of Conduct

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
i)	Information on Code of Conduct	Yes	Yes	Yes	Yes
ii)	Affirmation of compliance with Code of Conduct	Yes	Yes	Yes	Yes

All the banks under consideration have a comprehensive code of conduct defined. They all make affirmative statements about full compliance with this code of conduct.

### 9 Compliances with the Board Procedure

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
9)	Compliances with Board procedure.	Yes	Yes	Yes	Yes

All the banks report board meeting follow-ups and full compliance with the board procedures.

### 10 Board Committees

#### a. Audit Committee

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
i)	Transparency in composition of the committee (Qualified and Independent)	Yes	Yes	Yes	Yes
ii)	Compliance of minimum requirement of No. of Non-Executive Directors in the committee. (Minimum three director and 2/3 of the member should be ID)	Yes	Yes	Yes	Yes
iii)	Compliance of minimum requirement of the number of committee meetings. (At least four times)	Yes	Yes	Yes	Yes
iv)	Information about the literacy & the financial expertise of the committee.	Yes	Yes	Yes	Yes
v)	Information about the participation of Head of Finance, Statutory Auditors, Chief Internal Auditors, and other invitees in the committee meetings.	Yes	Yes	Yes	Yes
vi)	Disclosure of charter & terms of reference to the audit committee.	Yes	Yes	Yes	Yes
vii)	Disclosure of Committee report	Yes	Yes	Yes	Yes

The Audit Committee of the Board functions as per RBI guidelines and compliance with the provisions of SEBI (LODR) Regulations, 2015, and LODR amendment regulation 2018 to the extent that they do not violate the directives or guidelines issued by the RBI.

In the case of the SBI, the audit committee of the bank comprises eight directors of which six are non-executive directors, including three independent directors, and two executive directors. As on March 31, 2021 the bank did not have the required number

of independent directors in its audit committee.

For all the banks (S.No. (iv) above), the educational qualifications and experience of the directors have been mentioned, which is sufficient disclosure of information about the literacy and financial expertise of the Audit Committee.

Also, since the Audit reports of all banks (S.No. (v) above) carry the sign-off of the head - Finance, statutory auditors, and internal auditors, we can assume they were a part of the audit committee meetings.

#### b. Nomination And Remuneration Committee

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
i)	Formation of the committee	Yes	Yes	Yes	Yes
ii)	Information about the number of committee meetings.	Yes	Yes	Yes	Yes

iii)	Compliance with the minimum requirement of No. of Non-Executive Directors in the committee. (At least three members)	Yes	Yes	Yes	Yes
iv)	Compliance with the provisions of Non-Executive Director as chairman of the committee	Yes	Yes	Yes	No
v)	Information about participation in meetings.	Yes	Yes	Yes	Yes
vi)	Disclosure of Committee report.	No	No	No	No

All the banks under consideration have respective Nomination and Remuneration Committees in place.

The Directors remuneration is in accordance to the guidelines by the Government of India (GOI). NEDs are paid only the sitting fees as fixed by the GOI.

However, for PNB, the Nomination and Remuneration Committee conducted no meeting during the year 2020-21. This is because the committee was non-functional since only two directors on the

board were nominated to this committee as per the application guidelines. Accordingly, the quorum requirement for this committee was not met.

None of the banks is disclosing the NRC committee report.

Only the details about the committee, its composition, terms of reference, number of meetings held during the financial year, and the matters discussed have been stated in the corporate governance report.

#### c. Stakeholders Relationship Committee

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
i)	Transparency in the composition of the committee	Yes	Yes	Yes	Yes
ii)	Information about nature of complaint & queries received and disposed item wise	Yes	No	No	Yes
iii)	Information about the number of committee meetings	Yes	Yes	Yes	Yes
iv)	Information about action taken and investors/ shareholder survey	Yes	Yes	No	Yes
v)	Disclosure of Committee report	No	No	No	No

All the above banks have their respective Stakeholders' Relationship Committees in place. The number of meetings that this committee has conducted during the financial year have been disclosed. The committees conduct surveys & take the necessary actions.

Shareholder grievances have not been given in detail, only numbers received, solved, and pending have been stated. However, when it comes to disclosing the complaints and queries received. None of the banks discloses the types of complaints

received. Also, for SBI, none of the banks share the reports with their respective Stakeholders' Relationship committees.

Canara Bank and Bank of Baroda have given details about the complaints received from customers - types of complaints, number of complaints and the duration they took to resolve them. The customers generally had complaints about Internet or mobile or electronic banking, ATM/debit cards, difficulty in account opening and operations, levy of excessive charges, loans and advances, etc.

#### D. Risk Management Committee

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
i)	Formation of committee	Yes	Yes	Yes	Yes
ii)	Disclosure of committee report	Yes	Yes	Yes	Yes

Banks, in general, are systemically important corporates. And since they deal directly with money,

they are exposed to all kinds of risks ranging from economic risks, currency risks, risks of fraud,

operational risks, etc. Therefore, the risk committee has possibly the most vital role in banking.

We see that all the banks under consideration comply with the requirements around the formation

of the risk management committee. The different types of risks that affect the Banking sector have been disclosed in the Annual Report.

### E. Additional Committees

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
i)	Health and Safety & Environment Committee	No	No	No	No
iii)	Investment Committee	No	No	No	Yes
iv)	Other Committee	Yes	Yes	Yes	Yes

Additional committees are individual making adequate disclosures about these committees. requirements of these banks and we see that they are

### 11 Disclosure and Transparency

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
i)	Significantly related party transaction having potential conflict with the interest of the company	Yes	Yes	Yes	Yes
ii)	Non-compliance related to capital market matters during the last three years	Yes	Yes	Yes	Yes
iii)	Board disclosure-Risk Management	Yes	Yes	Yes	Yes
iv)	Information to the Board on Risk Management	Yes	Yes	Yes	Yes
v)	Publishing of Risk Management Report	Yes	Yes	Yes	Yes
vi)	Management Discussion And Analysis	Yes	Yes	No	Yes
vii)	Information to Shareholders-				
	Appointment of a new director / re-appointment of retiring directors	Yes	Yes	Yes	Yes
	Quarterly results & presentation	Yes	Yes	Yes	Yes
	Share-Transfers	Yes	Yes	Yes	Yes
	Directors' responsibility statement	Yes	Yes	Yes	Yes
viii)	Shareholder rights	Yes	Yes	Yes	Yes
ix)	Audit Qualification	Yes	Yes	Yes	Yes
x)	Training of board members	Yes	Yes	Yes	Yes
xi)	Evaluation of non-executive directors	Yes	Yes	Yes	Yes
xii)	Resignation of Director with reason	Yes	Yes	Yes	Yes

On Disclosures, all the banks under consideration are reasonably compliant. Except for Canara Bank, they are publishing most of the reports made by their respective committees. The Canara Bank failed to publish details on non-compliance and Risk

Management Report. It also did not make disclosures about the training of board members and evaluation of non-executive members.

Canara bank has also given details about international risk exposure.

### 12 General Body Meetings

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
i)	Location and time of General Meetings held in last three years	Yes	Yes	Yes	Yes
ii)	Details of Special Resolution passed in the last 3 AGM	Yes	Yes	Yes	Yes

iii)	Details of the resolution passed last year through Postal Ballot including the name of conducting official and voting procedure	Yes	Yes	Yes	Yes
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All banks have complied with the requirements around announcements and conduct of their respective General Body Meetings. They are also making adequate disclosures around any resolutions passed (including follow-ups over the last three years) and the resolutions passed through postal ballots.

### 13 Means of Communication and General Shareholder Information

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
13)	Means of Communication and General Shareholder Information	Yes	Yes	Yes	Yes

From the above table it is clear that all the banks strongly believe in providing information to the stakeholders. The financial results of the banks are published in the leading newspapers of the country and are also uploaded on the website of the respective bank. Post declaration of the results meetings with the press, analysts/investors are held on the same day. Copy of the results, press notifications along with a copy of the presentation made on the performance of the bank to the investors/analysts is submitted to the stock exchange.

### 14 Whistle-Blower Policy & Vigilance Mechanism

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
14)	Whistle-Blower Policy & Vigil Mechanism	Yes	Yes	Yes	Yes

SEBI (LODR) Regulations, 2015 mandates the establishment of a mechanism called whistleblower policy to report to the management, fraud or violation of the bank's code of conduct or ethics policy. The banks have also conducted awareness campaigns, panel discussions, and competitions in schools and colleges in the interest of vigilance and awareness about the ill effects of corruption. There is also a vigilance set up at the head office level. This is headed by Chief Vigilance Officer (CVO), who is assisted by executives and staff of vigilance department at the Head Office. Some banks also observe vigilance awareness week in which activities such as seminars, workshops and customer grievance redressal meetings are conducted.

### 15 CEO/CFO Certification

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
15)	CEO/CFO certification	Yes	Yes	Yes	Yes

Regulation 17(8) of the SEBI (LODR) Regulations, 2015, deals with the CEO/CFO certification. For the financial year 2020 – 2021, the consolidated financial statements and the cash flow statements have been certified.

### 16 Compliance with Corporate Governance and Auditors' Certificate

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
i)	Clean certificate from auditors	Yes	Yes	Yes	Yes

Regulation 24 of the SEBI (LODR) Regulations, 2015 pertains to certificate of compliance of corporate governance and auditors' certificate which is issued to the bank. All the banks have complied with the requirements and have been given a compliance certificate.



### 17 Code for Prevention of Insider Trading Practices

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
17)	Code for prevention of insider trading practices	Yes	Yes	Yes	Yes

All the banks also have a comprehensive policy disclosures about the code have been made. on insider practice trading practices. Adequate

### 18 Disclosure of Stakeholders' Interest

S.No.	Governance Parameters	SBI	PNB	Bank of Baroda	Canara
i)	Environment, Health & Safety measures (EHS)	Yes	Yes	No	No
ii)	Human Resource Development initiative (HRD)	Yes	Yes	No	Yes
iii)	Corporate Social Responsibility (CSR)	Yes	Yes	Yes	Yes
iv)	Industrial Relations (IR)	Yes	Yes	Yes	Yes
v)	Disclosures of policies on EHS, HRD, CSR, & IR	Yes	Yes	No	Yes

All the banks have strategies to deal with global environmental issues such as climate change, global warming, etc. Efforts put in with regards to saving the environment through green banking initiatives, such as sending notices / annual reports and other communication through email, have also been clearly stated. Initiatives on clean technology, energy efficiency, and renewable energy, etc, are undertaken by the Canara Bank.

All the above banks have taken the necessary initiatives in the Human Resource Development vertical. They have their respective employee grievance policies. Each bank has taken the steps needed towards tackling sexual harassment grievances within their work environment, in line with the Sexual Harassment at Workplace Prevention, Prohibition and Redressal Act, 2013. Complaints filed during the year have been disposed of, leaving no complaints pending at the end of the financial year.

All the banks have made ample disclosure on the CSR initiatives taken so far, especially during the COVID times.

All the above banks comply with the necessary guidelines under Industry Relations (Trade Union Act, 1926). These recognise the relevant Officers and/or employee's unions and engage with them as required.

### Suggestions

1. The process of appointing new directors – women should be initiated beforehand to avoid not having the stipulated combination of the board of directors.

2. In times of smart learning, E-learning portals can be set up by the banks to support digital and financial literacy. Introduction to new financial products, ways of using technology to their advantage, etc. can be some of the topics covered.
3. The banks could explore the formation of an ESG Committee as one of the mandatory Board committees. The banks need to start taking necessary actions to support the implementation of ESG as a benchmark of their performance, and adequate disclosures be made.

### Conclusion

The banks under consideration have shown a high level of compliance with corporate governance requirements. For the most part, they have made adequate disclosures, taken the necessary actions in time, and followed through on the conditions.

Even during the Covid-related lockdowns, the protocols were adhered to diligently. Due measures were taken to protect and, at the same time, fulfill their obligations to the stakeholders - employees, society at large, account holders, general or senior citizens, etc. The banks conducted their respective AGMs through video conferencing when lockdowns and travel restrictions were in effect.

However, on certain parameters, the author finds that the banks can improve their deliverables. One such parameter is the disclosure of the bank's Risk Committee report. The stakeholders should have access to the various types of risks that a bank is exposed to. Therefore, the banks must do a better job at disclosing their Risk Committee reports every time they are written.



Overall, the public sector banks are on the right path along the lines of corporate governance and disclosures. Their doing well on this parameter lends faith to the strength of banking and financial system in India.

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