



Date decided by the Board: 2074.10.23

Effective date: 2062.4.22

First amendment: 2075.03.32

Directives on Good Corporate Governance of a Body  
Corporate, 2074

Preamble: It is expedient to create legal provision in order to promote corporate governance by making the stock market systematic, transparent and accountable;

Now, in exercise of the power conferred by section 118 of the Securities Act, 2063 (2007), Stock Board of Nepal hereby makes and issues the following directives, namely:-

Chapter-1

Preliminary

1. Short name and commencement: (1) these directives may be called Directives on Good Corporate Governance of a Body Corporate, 2074.

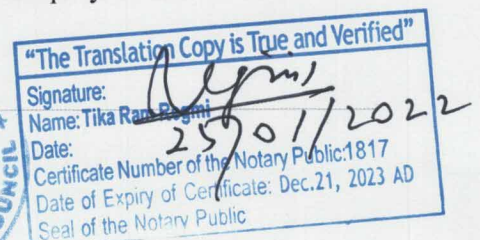
(2) They shall come into effect on the date as prescribed by the Board.

2. Definitions: In these directives, unless the context otherwise requires:—

(a) “Chairperson” means the chairperson of the board of directors.

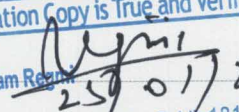
(b) “Act” means the Securities Act, 2063 (2007);

(c) “Joint family ” means husband, wife, son, daughter-in – law, daughter, adopted son, adopted daughter, father, mother, step-mother of a manager or employee and his/her dependent brother and sister;





- (d) "Employee" means a person appointed at a body corporate and working therein;
- (e) "Executive chief" means the chief executive officer who looks after daily managerial responsibility of a body corporate, and the expressions include a head person or administrator who takes the responsibility of administration, management or business thereto;
- (f) "Board" means the Securities Board of Nepal established in accordance with section 3 of the act;
- (g) "Financial interest" means a financial interest of such person(s) of a body corporate in which a team of management, or directors, or shareholders holding one percent or more shares, or executive chief, or company secretary, or a family member of such person, or a person, company or a body corporate having power to nominate director holding separately or jointly ten percent or more shares out of the paid of capital of any firm, company or a body corporate and it also includes an interest as prescribed by the Board from time considering the nature and prominence of transactions;
- (h) "Management" means a manager who makes decisions in the activities of a body corporate, and it also includes a manager, managing director, or officer or an employee equivalent to that level appointed as a chief of any branch or unit of a body corporate vesting final responsibility or powers;
- (i) "Director" means a director of the board of director of a body corporate and it also includes a chairperson thereof;
- (j) "Board of directors" means the boards of directors constituted in accordance with section 5;
- (k) "A body corporate" means a listed body corporate whose securities are listed at the stock exchange market.

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3. Principles of Good Corporate Governance: A body corporate shall comply with the following principles on good corporate governance:

- (a) Responsibility towards shareholders;
- (b) Equal treatment amongst shareholders;
- (c) Accountability;
- (d) Transparency and access to information;
- (e) Responsibility of the board of directors;
- (f) Responsibility towards stakeholders.

4. Flow of information and communication: (1) <sup>1</sup>A body corporate shall often publish its capital and share structure, financial condition and information, documents, data, details, any sensitive decision(s) having impacts on the value of its securities, and other documents and communications.

(2) There shall be regular dialogues and communications between a body corporate and the stakeholders with each other for the promotion of its objectives and business.

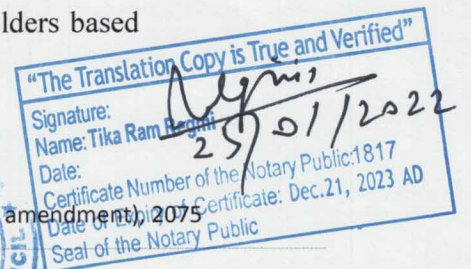
(3) A body corporate shall encourage to adopt an internationally recognized format in order to disseminate information and communications.

## Chapter-2

### Board of Directors

4. Board of directors: (1) There be constituted a board of directors with adequate representation of all class of shareholders based on their shareholding ratio in a body corporate.

<sup>1</sup> Amended by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075





(2) There shall be such number of directors in the board of directors as are necessary.

(3) Appointment or nomination of the board of directors shall be made by the general meetings of the body corporate under the prevailing law related to companies.

(4) Independent directors shall be appointed in the board of directors as are necessary.

(5) A person having knowledge and experience in the subject related to the business of the body corporate shall be appointed as an independent director by the general meetings as set forth in sub-section (4).

<sup>2</sup>Provided that if anything contained in the prevailing law that shall be applicable therefore.

(6) A tenure of director of the body corporate shall be four years at maximum.

(7) When any post of director falls vacant, the board of directors shall appoint another director in such vacant post within thirty five days from falling vacant for the remaining period of such director.

(8) When any director (s) is appointed or changed or vacant, a report in this regard shall be prepared and furnished the same to the Board and the stock exchange market.

(9) Where more than one directors, out of husband or wife, son, daughter, adopted son, adopted daughter, father, mother, step-mother and dependent brother or sister of joint-family or living separately, are appointed in the <sup>3</sup>board of

<sup>2</sup> Inserted by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075 B.S. (2018 AD)  
<sup>3</sup> Amended by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075 B.S. (2018 AD)

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District: Kathmandu





directors of the body corporate, it shall be incorporated in an annual report.

6. Disqualification of director: (1) Any of the following persons shall be disqualified for appointment or nomination as a director:-

- (a) Had ownership or held a position of financial gain in any securities trading agency;
- (b) Not had completed ten years from the imposition of such punishment when any punishments under section 101 of the act is imposed against any director, managing director, or any person holding a position equivalent thereof;
- (c) Had on being an official of a body corporate whose directors stayed unknown by failing to furnish details or information following the public issue of securities pursuant to the act.

7. Functions, duties and powers of the board of directors: (1) The functions, duties and powers of the board of directors shall be specified clearly in the memorandum of association and articles of a body corporate.

(2) Subject to sub-section (1), the further functions, duties and powers of the board of directors shall be as follows:-

- (a) To ascertain suitable environment to conduct business activities by managing an overall institutional risks<sup>4</sup>;

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<sup>4</sup> Amended by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075



- (b) To maintain good corporate governance and ensure not to interfere with daily activities of the organization;
- (c) To protect or cause to protect the interest of small investors;

<sup>5</sup>Clarification: for the purposes of this clause “small investor” means an investor making investment up to **fifty thousand rupees** in the paid-up capital.

- (d) To provide necessary directions by carrying out a regular monitoring and analysis of the functions and activities of the management;
- (e) To make collective efforts to achieving the objectives and goals of the organization.

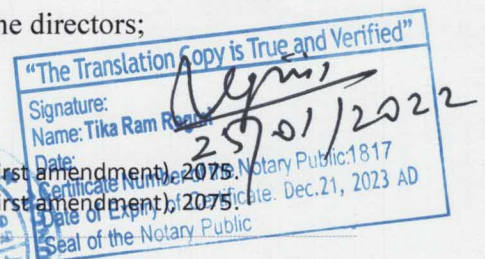
8. Appointment of chairperson: A person who can play a lead role practicing good corporate governance and institutional effectiveness shall be appointed as chairperson of the board of directors.

9. Functions, duties and powers of chairperson: The functions, duties and powers of the chairperson shall be as follows:-

- (a) To provide the leadership to the organization by carrying the responsibility of the board of directors effectively;
- <sup>6</sup>(b) To table proposal(s) to the board of directors for discussion, and ascertain that full and true information is timely provided to the directors;

<sup>5</sup> Amended by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075.

<sup>6</sup> Amended by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075.







- (c) To chair the meetings and discussion of the board of directors;
- (<sup>7</sup>d) To coordinate between the board of directors and management;
- (e) To initiate, cause to initiate to making available effective communications to the stakeholders;
- (f) To provide a leadership role for the practice of good corporate governance.

10. Meeting of the board of directors: (1) The Directors or alternative directors shall attend the meetings of the board of directors.

(2) Decisions at the meetings shall be made objectively manner for the best interest of the organization.

(3) Records of the minutes of the meetings such as attendance of the board directors, agenda discussed and decisions made shall be kept separately.

(4) The decision to be made in accordance with subsection (3) shall be signed by at least fifty-one percent of the directors out of all directors present in such meetings.

(5) If a dissenting or different opinion is presented by any director on any agenda discussed in the meeting, such matter may be recorded in the minutes of the meetings, if such director wishes to do so.

Provided that such decision shall not be deemed to have disagreement of any director or invalid simply because not having signed by any director.

<sup>7</sup> Amended by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075.



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(6) The board of directors may solicit an expert opinion, or consult with any expert on any matter as it deems necessary.

11. Allowance and facility of board of directors: (1) Allowance for attending in a meeting to the directors and other facility therefore shall be such as may be prescribed by the general meetings of a body corporate.

(2) For the determination of the allowance and other facility as specified in sub-section (1), the work performance, volume of trading, business plan, net worth, status of making payment for claims, earnings, management costs, and rate of currency inflation, including other indicators of the organization shall be taken into consideration.

12. Chairperson and executive chief to be different person: (1) A chairperson and an executive of a body corporate shall be different.

(2) The chairperson shall have a duty to lead the board of directors, and conduct meetings thereof in a regular and continued manner.

(3) The executive chief shall have the duty to perform all functions, activities and responsibilities relating to managerial, administrative and fiscal matters of the body corporate.

### Chapter-3

#### Code of conduct of the Board of Directors

13. Provision on code of conduct of directors: (1) Each director appointed or nominated shall furnish the following matters in writing to a body corporate within the fifteen days following the appointment or nomination:-

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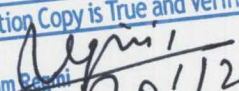
- (a) Details about a contract made with the body corporate by himself/herself or any member of his/her joint family, or likely to be made, if any;
- (b) Details about shares or debentures held by himself/herself, or any member of his/her joint-family, if any, in the body corporate or its principal or subsidiary company;
- (c) Details about principal shareholders or promoters of other organization, if he/she engaged;
- (d) Details about officials or employees, any member of his/her joint-family working in the body corporate;
- (e) Other details as such may be prescribed by the Board from time to time to furnish.

(2) The body corporate shall maintain these information provided by the director in accordance with sub-section (1).

<sup>8</sup>(3) The director shall not be employed as a director, paid official, executive chief, or employee in any listed company of similar nature and objective.

Provided that this provision shall not be applicable for a director appointed or nominated by Government of Nepal.

<sup>9</sup>(4) Notwithstanding anything contained elsewhere in this section, in the case where a subsidiary company is owned by any main company, it may appoint/nominate a director for the subsidiary company as its representative.

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<sup>8</sup> Amended by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075

<sup>9</sup> Amended by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075





<sup>10</sup>(5).....

14. Not to be worked against the interest of a body corporate: (1) No any director shall directly or indirectly be engaged in any activities against the interest of the body corporate.

(2) No any director shall engage in any activities on being his/her financial interest.

(3) Notwithstanding anything contained in this section, it shall not be deemed to have imposed any restriction to carry out trading of securities at the time public issue unless certified by the board of directors that any director or any member of his/her joint family has a financial interest with the trading.

(4) No any director shall be permitted to take on rent any house owned by any shareholder, or any member of his/her joint family, or their firm or company.

<sup>11</sup>(5) No any director shall be permitted to work as an auditor, consultant, executive chief, employee, or third party mediator in any listed company of the similar nature until serving in the position of director.

(6) No one shall be permitted to sale or purchase shares or debentures of such organization while serving as director therein or till one year from removing such position.

15. Not to misuse position: (1) No any director shall engage in any activities of personal benefits by misusing one's name and position.

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<sup>10</sup> Deleted by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075.

<sup>11</sup> Amended by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075.





(2) No any director shall make any alteration or amendment in the records or documents of the body corporate on a personal basis.

(3) No any director shall take any personal benefits through a company or the works connected therewith.

16. To maintain secrecy: (1) A director shall maintain the secrecy of communication, information and any other documents related to the body corporate, except to making public in accordance with the prevailing law.

(2) No any director shall be allowed to disclose or use any information or communication related to the body corporate for any personal interest after the retirement or removing from the position due to any reason.

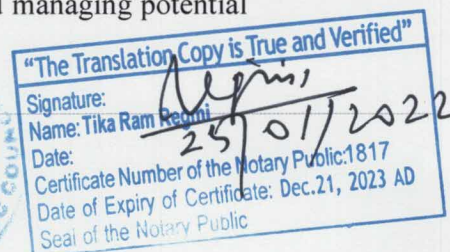
(3) Notwithstanding anything contained in this section, it shall not be deemed to have restricted to reveal or cause to reveal an order of court or judicial tribunal, any document, or any communication or information of customers in accordance with the prevailing law, or publish any articles, writings/creations, or publications with the approval of the board of directors.

#### Chapter-4

#### Risk Management and Internal Control System

17. Risk management and assets and liability committee: (1) Unless otherwise provided by the regulatory authority, a separate committee under coordination of a separate director shall be constituted to study and review about risk, assets and liability each.

(2) There shall be constituted a risk management committee for the purposes of reducing and managing potential





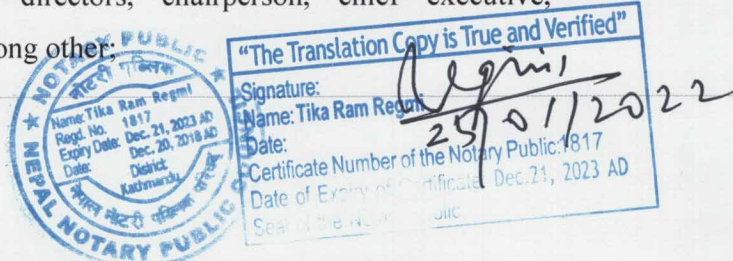
organizational and financial risk to be occurred due to any reason.

(3) An independent director shall be invited in the works of risk management system and policy review of a body corporate.

(4) An assets and liability committee shall be constituted to evaluate the assets and liability of the body corporate.

18. Internal control system: (1) subject to other matters, each body corporate shall prepare an internal control system on the following matters and implement the same:

- (a) On the subject of capital operation and management of a company;
- (b) On the matter that the directors, chairperson, chief executive, among others, shall not act causing personal interest or conflict of interest with the company;
- (c) On the matter that prior information be provided by the directors, chairperson, chief executive, among others, regarding any personal interest or conflict of interest with the company, if any;
- (d) On the matter of controlling corruption and financial irregularities;
- (e) On the matter of compliance and implementation of the relevant law;
- (f) On the matter of protecting a whistle blower;
- (g) On the matter of the performance evaluation of the directors, chairperson, chief executive, among other:







- (i) On the matter as the body corporate deems necessary.

## Chapter-5

### Organizational Structure and Employee

19. To prepare organizational structure: (1) A body corporate shall prepare or update an organizational structure by carrying out workload and cost-benefit analysis.

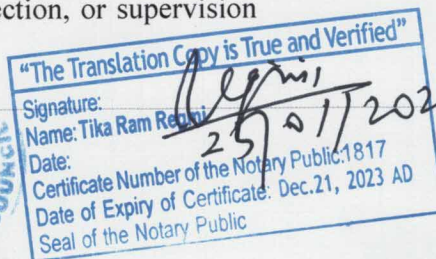
(2) The body corporate shall maintain a muster roll of employees as are necessary for the body corporate and fill up the vacancy.

(3) A transparent system shall be applied for fulfilment of vacancy.

20. To appoint compliance officer: (1) A body corporate shall appoint a compliance officer out of the officers at the managerial level with the three years of professional experience at least and graduated in management, commerce, law or any other subject related to its own business at least:

(2) The compliance officer shall ensure that the following matters are complied with by the body corporate:-

- (a) Matters in accordance with the act, the regulations and the directions and directives issued by the regulatory authority from time to time;
- (b) Terms and conditions specified in the license at the time of issue by the regulatory authority;
- (c) Directions given by the regulatory authority during the regulation, inspection, or supervision of the body corporate.





<sup>12</sup>(3) The compliance officer shall prepare a report as to whether the matters stated in sub-section (2) are complied with or not and get it approved by the board of directors, and certified by an auditor.

<sup>13</sup>(4) A certified abstract with main points of the report prepared in accordance with sub-section (3) shall be incorporated in an annual report of the body corporate.

(5) The compliance officer shall be responsible for the truthfulness and authenticity of the report prepared and submitted in accordance with sub-sections (3) and (4) respectively.

(6) The matters contained elsewhere in these directives shall not exempt the body corporate, its board of directors or executive chief to comply with the matters contained in sub-section (2).

21. Rights and duties to be determined: (1) For assigning the works to any employee in the organization, a well-defined responsibility of each employee with job description shall be required to make.

(2) The employee shall be held accountable individually for the works assigned to him/her in accordance with sub-section (1).

22. Secrecy to be maintained by employee: Any employee working at a body corporate shall maintain secrecy as specified in section 16.

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<sup>12</sup> Amended by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075

<sup>13</sup> Amended by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075





23. Salary, allowance and other facility: (1) A body corporate shall provide a prior information to its employees about salary, allowance and other facility to be provided.

(2) The body corporate may constitute a committee for making recommendations on the salary, allowance and other facility to be provided to its employees, if deemed necessary.

(3) The body corporate may determine the salary, allowance and other facility to be provided to its employees based on the recommendations of the committee in accordance with sub-section (2)

<sup>14</sup>Provided that a person receiving salary, allowance and other facility from one listed company shall not be employed to another on the condition of receiving salary, allowance and other facility.

## Chapter-6

### Accounts and audit of a body corporate

24. To maintain accounts: A body corporate shall maintain up-to-date account of all its incomes and expenditures as per the recognized principles of accounting.

25. Internal audit to be carried out: A body corporate shall make necessary arrangements to carry out its internal audit.

26. Audit committee: (1) <sup>15</sup>An audit committee under the coordination of a director of a body corporate shall be constituted.

(2) The chairperson, executive chief, advisor, and chief of finance or account division and their any member of joint-

<sup>14</sup> Amended by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075.

<sup>15</sup> Amended by Good Corporate Governance of a Body Corporate Directives (first amendment), 2075.





family shall not be a member of the committee as specified in sub-section (1).

<sup>16</sup>(3) At least one member of the committee as specified in sub-section (1) shall be an expert in accounts or finance, or having three years of professional experience in accounts or auditing.

27. Functions, duties and powers of audit committee: (1) Subject to the prevailing law, the functions, duties and powers of an audit committee shall be as follows:

- (a) To ascertain authenticity, truthfulness and reliability of information contained in a financial statement of a body corporate by making assessment thereof;
- (b) To ascertain whether accounts, budget, and an internal control system of a body corporate is fit and proper or not by way of inspection and monitoring;
- (c) To ascertain whether the procurement system of a body corporate is fit and proper and reasonable, or not;
- (d) To ascertain whether the records, documents of an internal audit system, or electronic records of a body corporate are properly maintained or not;
- (e) To ascertain whether accounts, audit, balance sheet, or financial statements are maintained properly or not in accordance with the prevailing

<sup>16</sup> Amended by Good Corporate Governance of a Body Corporate Directives (first amendment) 2075.



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law and the orders issued by the regulatory authority in accordance with the rules of lex fori;

- (f) To solicit opinion or advice in the matters as such may be requested by the board of directors;
- (g) To ascertain whether a body corporate has complied with the directions given by the regulatory authority;
- (i) To ascertain whether the internal audit works are performed effectively and independently or not.

(2) The audit committee shall submit its report of activities to the board of directors.

#### Chapter-7

#### Not to be performed by a Body Corporate

- 28. Not to borrow or lend loan: A body corporate shall not borrow or lend loan or credit or money in any other manner from, or to a person, bank or financial institution on being financial interest of any directors and any member of his/her joint-family.
- 29. Not to accumulate assets in partnership: A body corporate shall not accumulate assets in partnership with any person, firm, company or organization, or its own employees, advisors, consultants on being a financial interest.
- 30. Not to use assets: (1) Save as the facility or benefits on being available as the capacity of director, shareholder, employee, advisor, consultant subject to the prevailing law, any person, firm, company, employee, advisor, or consultant on being a financial interest with the listed body corporate shall not use any of its assets in any manner.





(2) If it is found of using any assets of the body corporate against sub-section (1), it shall be deemed to have unauthorized used.

(3) The body corporate shall not take on rent/lease or use any other manner any assets of any person, firm, company, employee, advisor, or consultant on being a financial interest or vice versa.

## Chapter-8

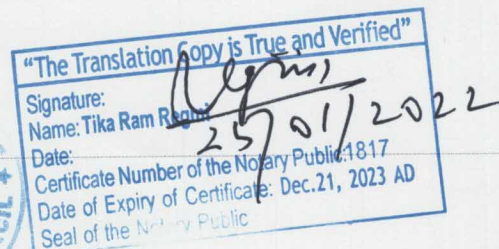
### Miscellaneous

31. To frame and implement procurement bye-law or procedure:  
Each body corporate shall frame and implement a procurement bye-law or procedure in order to make procurement procedure systematic and transparent.

32. To conduct learning and refresher programme: (1) Each body corporate shall conduct a learning and refresher programme annually in order to provide information to its directors about the law relating to corporate bodies and international practices.

(2) The following matters, among others, shall be included in the programme to be conducted in accordance with sub-section (1):-

- (a) Goals and objectives of a company;
- (b) Control system and objectives;
- (c) Main policy and procedure of a company;
- (d) Risk management and internal control system;
- (e) Delegation of powers on the administrative and financial matters;





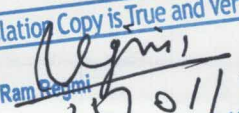


- (f) Structure of the board of directors, and provisions related to employees and their job description;
- (g) Budget, planning and performance evaluation system;
- (h) Principles of good corporate governance and their application;
- (i) Other matters as it deems necessary.

33. Oath: Any person appointed as a director shall take an oath of office and secrecy before assumption of his/her responsibility. No any director shall resume his/her office without taking an oath of office.

34. Code of conduct: The board of directors of a body corporate shall make a code of conduct for the directors and its employees working there and implement subsequently.

35. To remove difficulties: The Board may remove any difficulties or ambiguity arisen in the application of these directives.

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