

'Vote against appointment of IDs with pecuniary relationships'

New Delhi, Jan 5: Proxy advisory firm In-Govern has asked investors to vote against appointment of the independent directors with 'pecuniary relationships' with the concerned companies as they may influence the key board decisions. The pecuniary relationship extends beyond payment of sitting fees and commission, to payment of fees for rendering professional advice which is outside the gamut of responsibilities of an Independent Director (ID).

While most of the pecuniary relationships are through the IDs legal/consulting firms, there are also cases where the IDs have a direct lawyer-client relationship with promoter of the companies.

The proxy advisory firm has suggested

"shareholders vote against the appointment or reappointment of such IDs."

"If firms feel necessary to continue such relationship with ID's legal or consulting companies while retaining the IDs on Board, they should reclassify IDs as non-independent directors," In-Govern Research Services said. It further said MCA and Sebi should change the regulations to classify such IDs as non-independent directors.

Besides, it has recommended that "regulators view such pecuniary relationships as related party transactions (RPTs) and the fee paid should be disclosed as per RPT norms." In S&P BSE 200 Index, 21 companies had such a pecuniary relationship with their Independent Directors. The 21

firms include six from Nifty-50 index and four from Nifty Next 50 index.

These 21 firms had pecuniary relationships with 25 IDs. Out of these 25 IDs, 15 were members, and four were Chairmen of the Audit Committee.

The Companies Act, 2013 have set monetary limits of ₹50 lakh, 10% of revenue of the legal firm for such relationships between companies and their IDs, breaching which IDs can no more be classified as 'independent'. According to the proxy advisory firm, pecuniary relationships question the true independence of IDs as the legal/consulting firm draw a fee from the company and work for the company and promoters.

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