

Norms tightened for independent directors' removal

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INDEPENDENT DIRECTORS APPOINTED for a second term at corporates can now be removed only by a special resolution passed by shareholders, with the government tightening the rules.

Before removal, such independent directors should also be given "reasonable opportunity of being heard", according to the corporate affairs ministry.

The move comes against the backdrop of concerns in certain quarters about the independence of independent directors in carrying out their functions and instances of such people being removed from the boards of companies by promoter entities.

A special resolution requires approval from at least 75% shareholders present at a meeting whereas only a minimum of 50% is needed in case of ordinary resolutions.

Coming out with the new provision, the ministry said the decision is to ensure better corporate governance and balancing of powers of the boards.

In this regard, the ministry has issued a 'Removal of Difficulties' order to introduce a new provision under Section 169 of the Companies Act.

Section 169 pertains to removal of directors.

An independent director

appointed for a second term shall be removed by the company only by passing a special resolution and after giving him a reasonable opportunity of being heard, the order, issued on Wednesday, said. Till now, an independent director can be appointed for a second term only through a special resolution whereas such a person can be removed by way of an ordinary resolution.

"...to ensure better corporate governance in companies and balancing of powers of the board of the company, it is felt that there is a need for an amendment in Section 169 of the Companies Act, 2013 to provide for removal of such re-appointed independent director by way of a special resolution," it stated.

Advisory firm Corporate Professionals' Partner Ankit Shoghi said it is a welcome move towards strengthening corporate governance at companies and that independent directors would feel secure.

At a time when the government is working to make its role minimal in the affairs of corporates, the role of independent directors has become more vital. The ministry is looking to bolster the regime for independent directors and plans to carry out a comprehensive review of their functioning as part of efforts to strengthen the corporate governance framework.