



Data Bank of Independent Directors

Why in News

Recently, the **Ministry of Corporate Affairs** launched the **Independent Directors Databank** in accordance with the provisions of the **Companies Act, 2013** and the rules made thereunder.

Background

- The ministry was working on ways to **strengthen the framework for independent directors**, who have an important role in ensuring good corporate governance practices at companies.
- It seeks to make the process stringent because in many cases political appointees with standard financial background were also getting rehabilitated in several companies as independent directors.
- Recent **Infrastructure Leasing and Financial Services (IL&FS) crisis** highlighted the reckless grading by credit rating agencies who liberally granted and downgraded the companies as per their wish and got away with it.
- Apart from the launch of **Independent Directors Bank**, the government has also decided to **conduct examinations for appointments** of independent directors in which a **score of 60% marks** will be mandatory criteria for qualification.
 - The change is in line with the amended **Companies Act**. The government will also maintain a database of professionals qualifying in the test that can be used by companies looking to expand their board or making fresh appointments under the current regulations.

Significance

- Independent directors **must not assume a passive role**, merely reacting to ideas foreseen by the controlling shareholder or their appointees. They should be willing to question the status quo in the interest of shareholders not play a risk-free mute spectator limiting to attending just number of board meetings.
- **Strict accountability and eligibility** will curb promoters placing their own ineligible candidates and family members on the listed company boards.
- The concept of the institution of Independent Director is of utmost importance for **Corporate Governance** who should act as the trustees of stakeholders.

Data Bank

- It has been developed and maintained by the **Indian Institute for Corporate Affairs (IICA)** under Ministry of Corporate Affairs.
- It is a **first of its kind initiative** which provides for a wide array of **e-learning courses** on various topics including the **Companies Act, Securities laws, basic accountancy, board practices, board ethics and board effectiveness**.
- It provides an **easy to access navigation platform** for the registration of existing **Independent Directors** as well as individuals aspiring to become independent directors.
- **Companies can register** themselves with the databank to search, select and connect with individuals aspiring to be Independent Directors.

Independent Director

- An **Independent Director (also sometimes known as an outside director)** is a director on a board of directors representing minority shareholders and **who does not have a pecuniary relationship** with the company or related persons, except for sitting fees.
- Their role is to take a stand unambiguously and independently to have a check and balance on the exuberance of majority shareholders that may expose the company to unwarranted risks.
- The Companies Act, 2013 has mandated all listed public companies to have **at least one-third** of the total Directors to be independent.
- Their role requires them to be clinical while businesses expect them to be practical, that's the tight rope they walk on.

Source: PIB

PDF Reference URL: <https://www.drishtias.com/printpdf/data-bank-of-independent-directors>

