



# New Norms for Independent Directors

## Why in News

The [Securities and Exchange Board of India \(Sebi\)](#) has approved stricter norms related to appointment of **independent directors** and decided to introduce a **framework for [accredited investors](#)** along with other measures.

- Sebi is a statutory body established in accordance with the provisions of the **Securities and Exchange Board of India Act, 1992**. The basic functions of the Sebi is to protect the interests of investors in securities and to **promote and regulate the securities market**.

## Key Points

- **Independent Directors:**
  - Independent directors **can be appointed only through a special resolution** passed by shareholders. A special resolution **requires 75% of votes in favour** to be passed.
  - The regulator has also elaborated and strengthened the **disclosure requirements for the skills required** to be an independent director.
  - The **nomination and remuneration committee** of the board of directors, which decides on appointments and compensation, and the **audit committee** should have **two-thirds independent directors compared to a simple majority now**.
    - All **related party transactions** (between a company and its related entities) **shall be approved by only independent directors** on the audit committee.
  - Also, a listed company will be required to **disclose the resignation letter of an independent director**.
    - Also, there will be a **one-year cooling period for an independent director transitioning to a whole-time director** in the same company/holding/subsidiary/associate company or any company belonging to the [promoter group](#).

## 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 whims 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.

- **Accredited Investors:**

- Sebi has approved this **new category of wealthy, well-informed investors** who will be allowed to **invest in riskier products**, not usually allowed to individuals.
- These entities (accredited investors) could be individuals, family trusts, proprietorships, etc.
- They will be given the **flexibility to invest** the less than minimum amount mandated in Sebi rules and also to some extent get relaxation from regulatory requirements.
- They will enhance the attractiveness of [alternative investment funds \(AIFs\)](#).
  - AIF means any fund established in India which is a **privately pooled investment vehicle** which collects funds from sophisticated investors, whether **Indian or foreign, for investing** it in accordance with a defined investment policy for the benefit of its investors.

#### ▪ Other Important Changes Undertaken:

- To provide easy access to investors to participate in [public and rights issues](#) by using various payment avenues, Sebi has also decided to permit banks, other than scheduled banks, to act as a banker to such issues.
  - Unlike initial and follow-up public offering, the rights issue is not open for the general public but only to existing shareholders of the company.
- Sebi also **increased the maximum reward amount for an informant** who [blows the whistle on insider trading](#) to Rs 10 crore from Rs 1 crore now.
  - [Insider trading](#) involves trading in a public company's stock by someone who has non-public, material information about that stock for any reason.
- The regulator has also approved amendments to its **mutual fund regulations** which requires [asset management companies \(AMCs\)](#) to use more funds in riskier schemes (New funds).
  - Currently, AMCs have to invest only 1% of the amount raised in a new fund offer, or Rs 50 lakh, whichever is lower.
- The new norms will be effective **from 1<sup>st</sup> January, 2022**.

#### ▪ Significance:

- The changes seek to strengthen the [corporate governance](#) practices as well as **attract more investors**.
- It will help **maintain the interest of minority shareholders** in the corporate boardroom where their representation is minimal.
- This should hopefully result in **truly 'independent' independent directors** and not those with merely a semblance of independence.

[Source: IE](#)

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