

Experts wary of exams for directors

Say online proficiency tests for independent directors may be counterproductive and some may not want to take it

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Independent directors will soon have to return to the books to qualify for a seat on the board of companies. Come December, the government will start giving them an online proficiency self-assessment test meant to ensure better standards in the overall corporate governance.

However, experts feel the move may be counterproductive since it can shrink the already low pool of independent directors. "It might become an academic exercise just to tick a box. Many independent directors may not want to take a test," Shriram Subramanian, managing director, InGovern Research Services, said.

According to the National Stock Exchange database, there are over 5,500 individuals who hold 7,066 posts of independent directors. Since 2006 more than 8,000 directors have given up office either due to the end of term or by their own choice.

The Companies Act requires independent directors to be trained every year and sensitised about new topics in

their sector. Company Law, Securities Law, Basic Accountancy and other relevant areas are likely to be part of the online proficiency self-assessment test though the exact format is yet to be announced. The board of companies will have to disclose the results of these tests in their annual reports.

"I have taken many tests in my life, this one cannot be tougher. If a requirement has been placed by the government, one has to take the test. We are waiting for the details," said Vibha Rishi, who has served on various boards including PepsiCo, and Max India, among others.

The test could also cover topics, including risk management, succession planning, insolvency and bankruptcy law, corporate governance in family-managed companies, international corporate governance practices, judgment of the court dealing with rights, duties and responsibilities of directors and senior management. "Corporate trainings, workshops, interaction with directors and senior management on practical," said Gaurav



Pingle, company secretary.

The test is being designed by the Indian Institute of Corporate Affairs (IICA). Each person will have to score a minimum of 60 per cent to qualify. There is no cap on the number of attempts an individual may take for passing such test.

Besides, an individual who has served as director in a listed company or an unlisted public company having a paid-up capital of ₹10 crore or more, for a period of not less than 10 years, need not qualify the test.

"India is perhaps the only country to have introduced an exam for its directors. Why not

a test for managing directors and chief executives who run companies? The one challenge that still needs to be addressed is ensuring independent directors are truly independent," said Ankit Singhi, partner, Corporate Professionals.

However, the preparation and the test itself could be helpful for the professionals with non-accounting background. "They will be more aware of their roles, responsibilities, duties and importance of each document placed before them at board meetings, audit committee meetings or remuneration committee meetings," said Pingle.

TURNING ON THE HEAT ON DIRECTORS

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code. We need to create a market for corporate control. If a promoter is not performing well there should be incentives for others to take over who can better manage the company," a legal expert said.

The IICA at Manesar in Haryana has been notified as the institute to create and maintain a data bank containing names, addresses, qualifications of persons who are eligible and willing to act as independent directors, for the use of the company making such appointments.

The proficiency test would have to be taken only once after registration and the independent directors will have to apply for renewal within a period of 30 days from the date of expiry of their term.

Recent data indicates that the rate of resignation of independent directors from the boards of listed companies has increased significantly in comparison to previous years. A total of 606 independent directors resigned from NSE-listed company boards during the calendar year 2018. In comparison, 412 independent directors resigned between January 1, 2019, and July 22, 2019.

Recent corporate scams have turned the heat on company directors, who the government feels have failed to detect any signs of trouble. The current law requires all listed companies to have a third of their board members as independent directors. Their role is to ensure that the interests of minority shareholders are protected and act as overseers outside the influence of the firm.

The government may be way off the mark if it wants to improve corporate governance by putting independent directors to test, experts say. "India needs to liberalise the takeover