

Formulating Familiarization Programme for Independent Directors (IDs) under SEBI (LODR) Regulations, 2015"

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Independent Directors

1. The role played by the Independent Director in any organization is of paramount importance and they bring to the board of the company best corporate governance practices, upheld ethical standards of integrity and probity and above all they exercise their independent judgment and ensure that the company takes the right decision in the best interest of all the stakeholders of the company. The Independent Directors also stand to balance the conflicting interests of the company management and its shareholders. Therefore, it becomes imperative on the part of the company that the Independent Directors to get familiarized with the company, its strategy, operations, management and the regulatory framework and such other company related information.

Companies which are required to appoint Independent Directors

2. Section 149 of the Companies Act read with Rule 4 of the Companies (Appointment and Qualification of Directors) Rules 2014 provides for the appointment Independent Directors and in addition, for listed companies, the provisions of SEBI (LODR) Regulations 2015 also applicable.

- (i) As per sub-section (4) of section 149 of the Companies Act 2013, every listed public company shall have at least Central Government may prescribe the minimum number of Independent Directors in case of any class or classes of public companies.
- (ii) In addition to the above, for listed companies, the SEBI (LODR) Regulations 2015, specifies in its various regulations relating to Independent Directors. The listed companies are required comply with those regulations under SEBI (LODR)
- (iii) The Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014, the following classes of companies shall have at least 2 directors as independent directors.
 - (a) Public Companies with paid-up share capital of Rs. 10 crores or more.
 - (b) Public Companies with turnover of Rs. 100 crore or more.
 - (c) Public Companies with aggregate outstanding loans, debentures, and deposits, exceeding Rs. 50 crore

Explanation provided by the Rules, by way of clarification that, the paid up share capital or turnover or outstanding loans, debentures and deposits, as the case may be, as existing on the last date of latest audited financial statements shall be taken into account.

Non applicability of appointment of Independent Directors

3. Rule 4 of the Companies (Appointment and Qualification of Directors) Rules 2014 provides that where a ceases to fulfil any of three conditions as discussed above for three consecutive years, it shall not be required to comply with the provisions until such time as it meets any of such conditions.

The provisions is not applicable to (a) private companies; (b) joint venture company (c) Whollyowned subsidiary and (d) dormant company

Specific provisions relating to Independent Directors

4. There are specific regulatory requirements under the provisions of Companies Act 2013 and also under the provisions of SEBI LODR regulations relating to IndependentDirectors.

Provisions under Companies Act 2013

4.1 Sub-section (8) of section 149 of the Companies Act, 2013 mandates Independent Directors to abide by the code for Independent Directors and code has been detailed in Schedule IV to the Companies Act, 2013. The code is a guide to professional conduct for Independent Directors and according to the regulator, adherence of the standards specified in the code by the Independent Directors would not only ensure fulfillment of the responsibilities of Independent Directors but also promote confidence of the investment community – particularly minority shareholders.

The code for Independent Directors provides guidelines for professional conduct, his responsibilities, duties and it also specifies that the appointment of Independent Directors would be formalized through a letter of appointment by the company. The Schedule IV of Companies Act 2013 also mandates that the Independent Directors shall undertake appropriate induction and regularly update and refresh their skills, knowledge, and familiarity with the Company.

The code further says that the terms and conditions of appointment of Independent Directors is required to be displayed on the company's website.

Provisions under SEBI (LODR) regulations 2015

4.2 The sub-regulation (7) of regulation 25 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 mandates all listed company to familiarize the Independent Directors with the company for the following:-

- (a) Nature of the industry in which the company operates
- (b) Business model of the company
- (c) Roles. Rights, responsibilities of Independent Directors
- (d) Any other relevant information such as
 - Company's products / services
 - Financial performance of the company (5 years)
 - Company management including group management
 - Compliance matrix of the company
 - Board meeting process of the company
 - Apprising on major pending issues of the company
 - Contingent liabilities / legal cases if any pending

Declaration of independence

5. As per sub-section (7) of section 149 of the Companies Act 2013, every independent director is required to give a declaration that he meets the criteria of independence as provided in sub-section (6), at the first meeting of the Board in which he participates as a director, and thereafter at the first meeting of the board in every financial year, or whenever there is any change in the circumstances which may affect his status as an independent director.

Similar provision of declaration of independence by the Independent Director is required to be made as per sub-section (8) of regulation 25 of the SEBI (LODR) Regulations 2015 for listed companies.

The declaration given by the Independent Director is required to state that he/she meets the criteria of independence and he/she is not aware of any situation, that could impact/impair his/her ability to discharge his/her duties with an objective independent judgement and without any external influence.

In the case of listed companies, the board is required to take on record the declaration given by the Independent Director and provide a confirmation in the Corporate Governance Report forming part of the annual report pursuant to regulation 34(3) read with Schedule V of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, together with a Certificate from the practicing company secretary.

Action called for from the company

6. The following actions would be called for from the company's side.

Formulation of Familiarisation Programme for Independent Directors (IDs)

6.1. The Companies are required to formulate a "Familiarisation Programme for Independent Directors (IDs) "pursuant to the provisions of Companies Act 2013 applicable companies requiring to appoint Independent Directors and also under SEBI (Listing Obligation and Disclosure Requirements) Regulation 2015 which is applicable for listed companies, in addition to Companies Act 2013 provisions.

The Familiarisation Programme for Independent Directors (IDs) is required to spell out the familiarization at the time of induction of Independent Directors, role and responsibilities, details of committees where Independent Directors would be members, updation on ongoing events and development in the company, regulatory updates, and access to information, training programme and such other related details.

Suggested (draft) Familiarisation Programme for Independent Directors

6.2. Given below is an illustrative suggested draft Familiarisation Programme for Independent Directors (IDs) pursuant to the provisions of Companies Act 2013 / SEBI (LODR) Regulations 2015. The companies may modify, add additional classes to the policy depending upon the industry in which they operate and specific requirement if any of the company.

**Suggested (illustrative) document on
Familiarization Programme for Independent Directors (IDs)**

Preamble

The familiarization programme for Independent Directors formulated with the objective of making the Independent Directors of the company accustomed to their roles and responsibilities is divided into various modules such as; (i) roles, rights and responsibilities; (ii) board dynamics & functions; (iii) strategy, operations and functions of the company. The Program has been designed considering the specific needs of contemporary corporate governance and the expected obligations of Independent Directors in view of the onerous responsibility conferred by the Companies Act, 2013 and the SEBI LODR regulations as amended from time to time.

Familiarization at the time of induction of directors

Hencename of the companyhas put in place a structured programme for orientation and training of Independent Directors at the time of their joining with an aim to familiarize them with the knowledge of –

- (a) Company's profile and its products / services
- (b) Nature of industry in which the company operates
- (c) Company's management including group management matrix
- (d) Company's business model
- (e) Role, responsibilities, duties and rights of the director in the company
- (f) Last five years financial performance of the company
- (g) Apprising the directors with all major pending issues of the company
- (h) Board meeting process of the company
- (i) Compliance matrix in the company
- (j) Contingent Liabilities of the Company and legal cases, if any pending

Site visits

A full day visit to the company's premises atplace (s)..... is arranged wherein the directors are introduced to thename of the companyManagement Team, Production Mangers and other relevant personnel's. Detailed presentation is made covering the company's corporate profile, its mission, vision and values statement, organizational structure, the company's history and milestones, the business strategy, latest annual report, business code of conduct applicable to directors / employees of the company, the environment, health and safety policy of the Company and safety aspect to be adhered to.

Role and responsibilities

All the Independent Directors of the company are made aware of their role, responsibilities and liabilities at the time of their appointment / reappointment, through a formal letter of appointment, which also stipulates various terms and conditions of their engagement.

As and when appoint of director takes place, they are provided along with their appointment

letter, an introductory kit consisting of highlights of various statutory provisions, complete set of statutory and internal policies of the company, list of committees, memorandum and articles of association of the company and other materials as may be required by the directors to gain an insight into the company.

Committees constituted by company

Most of the directors including Independent Directors on the board are also part of one or more of the following committees constituted by the company as required under the provisions of Companies Act, 2013 / SEBI LODR regulations.

1. Audit Committee
2. Nomination and Remuneration Committee
3. Stakeholders Relationship Committee
4. Corporate Social Responsibility Committee
5. Risk management committee

The Board members of such committees are also provided with a detailed functioning of the related area of operation that is governed by the respective committee. Summary of Familiarization programme of Independent Directors:

Updation in the ongoing events & developments

.....name of the company.....undertakes various measures to update the directors, from time to time, of any significant changes in the ongoing events and development relating to the company.

Regulatory updates

The company is not only required to comply with Companies Act 2013, but also SEBI LODR regulations and other applicable laws to the company and also required to follow all the circulars and developments taking place in Securities laws in letter and spirit. In view of this, the company in its every board meeting allocates considerable amount of time for agenda item titled "Regulatory presentation" wherein, the Chief Regulatory Officer / Company Secretary presents to the board, a brief presentation highlighting SEBI & other regulatory updates, surveillance related matters and investor services related matters.

Access to information.

The board members are given complete access to any information relating to the company, whenever they so request. Board / committee meetings are mostly held at it's.....place.....located at

Presentation by auditors

The statutory and internal auditors give a detailed presentation covering their areas of audit and significant findings made by them during the course of audit. Directors are made aware of

significant changes having taken place in the corporate and other commercial laws, etc., which affect the company and the directors.

Training programme

Need based external training programme designed, developed and conducted by an outside agency for the directors.

Disclosure

This familiarization programme shall be uploaded on the company's website for public information and a web link for the same shall also be provided in the annual report of the company.

Review

The board will review this program and make revisions as may be required from time to time.

Date:...date / month / year

Disclosure requirements

7. The following are the various disclosure requirements relating to Familiarization Programme for Independent Directors (IDs)

Website Disclosures

7.1 Pursuant to regulation 46, SEBI (LODR) Regulations, 2015, the listed companies are required to display the Familiarisation Programme for Independent Directors (IDs)

Board Report

7.2 The board report is required to disclose under its headings "policies of the company" that the company has posted the policy on Familiarisation Programme for the benefit of the Independent Directors amongst other policies on its website at.....website URL details.....

Corporate Governance Report (listed companies)

7.3 The listed companies are required to attach the Report on Corporate Governance, Management Discussion & Analysis Report and Business Responsibility Report pursuant to Regulation 34(3) read with Schedule V of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 together with a Certificate from the Practicing Company Secretary.

In the Corporate Governance Report, the companies under is heading " Familiarisation programme for Independent Directors" are required to disclose that whenever any person joins the board of the

company as an Independent Director, an induction programme is arranged for him / her wherein he / she is familiarised with the company, their roles, rights and responsibilities in the company, the Business Code of Conduct and Ethics to be adhered to, nature of the industry in which the company operates, business model of the company, meeting with the senior management team members, etc. The companies are also required to further disclose that the company undertakes various measures to update the directors, from time to time, of any significant changes in the ongoing events and development relating to the company. The company may state further that the company also undertakes various programmes to update the directors, from time to time, of any significant changes in the ongoing events and development relating to the company.

The companies are required to provide the details of such familiarisation programmes on the Company's website at.....website address.

Conclusion

8.The market regulator i.e. the Security Exchange Board of India has introduced the familiarization programme of Independent Directors having in mind for the companies to adopt a structured program for orientation and training of Independent Directors (and as well for non-executive directors) at the time of their joining so as to enable them to understand the company - its operations, business, industry and environment in which it operates.

Further the company could update the directors on a continuing basis on any significant changes therein so as to be in a position to take well-informed and timely decisions in the best interest of the company and also in the interest of all the stakeholders in a timely manner.

We can conclude in saying that the Independent Directors would contribute in increasing the credibility of the company, boosting up and maintain the stakeholders confidence levels, resolving the competing interest of all the parties and above all guiding the company in taking decisions in the interest of all stakeholders. These will definitely improve the financial stability of the company and the company would be in a better position to pursue and achieve its short and long term business goals / objectives.

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