

An independent director is a non-executive director of a company and helps the company in improving corporate credibility and governance standards. They play a vital role in risk management and an active role in various committees set up by a company to ensure good governance.

Independent Director means a non-executive Director who, apart from receiving directors remuneration, does not have any material/ pecuniary relationship or transaction with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates, which in judgment of the Board may affect independence of judgment of the Director.

The Companies 2013 specifically gives the definition of the Independent Director as under Section 149(6)

An independent director in relation to a company, means a director other than a managing director or a whole-time director or a nominee director,—

- who, in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience;
- a. who is or was not a promoter of the company or its holding, subsidiary or associate company;
  - b. who is not related to promoters or directors in the company, its holding, subsidiary or associate company;
    - who has or had no pecuniary relationship, other than remuneration as such director or having transaction not exceeding ten per cent. of his total income or such amount as may be prescribed, with the company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;
    - none of whose relatives—
      - a. is holding any security of or interest in the company, its holding, subsidiary or associate company during the two immediately preceding financial years or during the current financial year:  
Provided that the relative may hold security or interest in the company of face value not exceeding fifty lakh rupees or two per cent. of the paid-up capital of the company, its holding, subsidiary or associate company or such higher sum as may be prescribed;
      - b. is indebted to the company, its holding, subsidiary or associate company or their promoters, or directors, in excess of such amount as may be prescribed during the two immediately preceding financial years or during the current financial year;

c. has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, its holding, subsidiary or associate company or their promoters, or directors of such holding company, for such amount as may be prescribed during the two immediately preceding financial years or during the current financial year; OR

d. has any other pecuniary transaction or relationship with the company, or its subsidiary, or its holding or associate company amounting to two per cent. or more of its gross turnover or total income singly or in combination with the transactions referred to in sub-clause (i), (ii) or (iii);

- who, neither himself nor any of his relatives

a. holds or has held the position of a key managerial personnel or is or has been employee of the company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;

Provided that in case of a relative who is an employee, the restriction under this clause shall not apply for his employment during preceding three financial years

b. is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of :

a. a firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or

b. any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to ten per cent or more of the gross turnover of such firm;

c. holds together with his relatives two per cent or more of the total voting power of the company; or

d. is a Chief Executive or director, by whatever name called, of any nonprofit organisation that receives twenty-five per cent or more of its receipts from the company, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent or more of the total voting power of the company; or

e. who possesses such other qualifications as may be prescribed.