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Comprehension Test Question IBPS PO Pre, IBPS Clerk, SBI PO Pre and SBI Clerk

Comprehension Test Quiz 73

Directions: Read the passage carefully and answer the questions given below.

The recent Ratan Tata-Cyrus Mistry **imbroglio** brings into sharp focus the role and position of independent directors. Under Section 149 of the Companies Act, at least one-third of the directors of a listed company must be independent. That means that the person so appointed must not be a promoter of the company or its holding subsidiary or associate company nor should he/she be related to the promoters of the company. In addition, neither the individual nor his/her relatives should have a **pecuniary** relationship with the company. They are also, under Section 149(6), to be persons of integrity and possessing the relevant skills and experience.

Independent directors, though they may in the initial stage be invited by the controlling shareholders of a company or its incumbent managing director, are appointed by the shareholders at a General Meeting; they are so appointed to safeguard not only the best interests of all shareholders but also of all stakeholders.

Prior to the enactment of the Companies Act, 2013, the independent director had only civil liability. And to a great extent he/she was part of a "hail fellow" network where controlling shareholders invited their friends to sit on their boards confident of their support. In many other instances, retiring senior executives eagerly sought seats on the board as a way to supplement their pension. They were often grateful for being given a berth and remained loyal to the management that invited them. The only time I can recall when there was consternation, fear, outrage and indignation was when an arrest warrant was issued on Nimesh Kampani in 2009 as he was an independent director in Nagarjuna Finance. The company had defaulted on repaying deposits. Many felt this was unfair as an independent director had no executive duty and should not be held responsible.

Section 149(12) provides that an independent director shall be liable only in respect of omission or commission by a company that had occurred with his/her knowledge, attributable through board processes, and with his consent or connivance, or where he had not acted diligently. I am uncertain whether independent directors appreciate this, but this provision is all-encompassing as it suggests that if a company has made a decision which is not in its better interest (taking into account all stakeholders) at a board meeting and the independent director was aware or party to the decision, he is liable both in civil and

criminal terms. Many senior proponents of the law have opined that this means that even if the director has not attended a meeting but the item was mentioned on the agenda and the independent director had not objected to it, he/she would be liable. Furthermore, if the independent director attends a meeting where the matter is discussed and he/she keeps quiet even though not in agreement, he/she could be held both criminally and civilly liable. The independent director, if he/she is not in agreement with a proposal, must, if he/she wants to be in the clear, state his/her disagreement and have it recorded in the minutes.

In many companies which are majority-owned by a family or a few individuals, the persons controlling the company tend to treat it as their own fiefdom and utilise company funds and resources for personal enjoyment. Company planes (which the company may not need) are used for trips to resorts abroad to hold a board meeting. Paintings by reputed artists purchased at astronomical prices adorn private homes. Homes are lavishly decorated at company expense. The independent director in many cases may not be aware or be a party to this. However, can it be said in these cases that the independent director acted diligently and as was expected of him/her? Shouldn't the independent director question and seek answers?

United Breweries was a very profitable company till it floated Kingfisher Airlines. Did the independent directors act diligently while approving this disastrous foray? Indian corporate lore is littered with many such examples. How is it that fingers are not being pointed at independent directors?

I believe the time has now come for independent directors to demonstrate, if they are to do what is expected of them and to avoid liability, that they will take care and be diligent and not be mere rubber stamps. In addition, no one must be an independent director if he/she has the slightest concern about the **bona fides** of the controlling shareholders. If one still does, it is at one's own peril.

1. Which of the following statements with respect to independent directors of a listed company cannot be inferred from the passage?

- A. An independent director must not be a promoter of the company.
- B. An independent director should not be a relative to the promoters of the company.
- C. The boards of listed companies need to have at least one independent woman director.
- D. All the above statements can be inferred from the passage.
- E. None of these

2. What according the passage is the prime expectation of the writer from an independent director of a company?

- A. An independent director should immediately report an anomaly to the founding members of the company.
- B. An independent director should show conscientiousness in his or her work or duties towards the company that appoints him or her.
- C. An independent director must make the efforts to bring the consensus over an important decision.
- D. All of the above
- E. None of these

3. In what circumstances according to the passage an independent director cannot be held accountable with respect to a company's affairs at board level?

- I. If an independent director remains absent during a board meeting discussion that further leads to a decision.

II. If an independent director keeps quiet over a decision taken by the other board members.

III. If an independent director clearly states his or her disagreement over a decision and have it in recorded form.

- A. Only I
- B. Only I & III
- C. Only III
- D. Only II and III
- E. All I, II and III

4. What does the phrase “hail fellow” imply in the context of the passage?

- A. An independent director who must have benefited an existing board member by one means or the other.
- B. An independent director who used to be someone from the close relations of the other board members.
- C. An independent director who had to be one from the retiring senior executives of various government departments.
- D. An independent director who used to be more like a friend to the board than what he or she was meant to be, before the Companies Act, 2013 came into force.
- E. None of these

5. What examples did the writer quote to unveil how, in many a case, the persons controlling a company which is owned by a family or a few individuals, tend to spend funds on futilities?

I. Company planes are unnecessarily used for trips to resorts abroad to conduct a board meeting.

II. Painting by reputed artists are purchased at astronomical prices.

III. Homes are lavishly decorated at company expense.

- A. Only I
- B. Only I & III
- C. Only II & III
- D. All of the above
- E. None of these

6. Mainly, for what purpose is an independent director appointed in a listed company?

- A. To keep an eye on the departmental expenditures in the company.
- B. To safeguard the best interests of all shareholders and those of the stakeholders.
- C. To represent company's leadership in the absence of core board members or directors.
- D. To act as a titular head in the company.
- E. None of these

7. Which of the following statements is not one of the facts stated in the passage?

- A. United Breweries was a very profitable company till it floated Kingfisher Airlines.
- B. At least 33.33% of the directors of a listed company must be independent.
- C. Nimesh Kampani who was an independent director in Nagarjuna Finance, was jailed for 1 year in 2009 because the company had defaulted on repaying deposits.

D. Section 149(2) provides that an independent director shall be liable only in respect of omission or commission by a company that had occurred with his/her knowledge.

E. None of these

8. Choose the word which is similar in meaning of the word 'Imbrogio' printed in bold as used in the passage.

A. Confrontation

B. Trance

C. Predicament

D. Absurdity

E. Risibility

9. Choose the word which is similar in meaning of the word 'Pecuniary' printed in bold as used in the passage.

A. Monetary

B. Direct

C. Close

D. Beneficial

E. Roundabout

10. Which one of these words is opposite of the phrase 'Bona fides' highlighted in the given passage?

A. whereabouts

B. authenticity

C. presence

D. records

E. insincerity



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Correct Answers:

1	2	3	4	5	6	7	8	9	10
C	B	C	D	D	B	C	C	A	E

Explanations:

1.

Reference

1st paragraph, 3rd sentence

... That means that the person so appointed must not be a promoter of the company or its holding subsidiary or associate company nor should he/she be related to the promoters of the company. In addition, neither the individual nor his/her relatives should have a pecuniary relationship with the company. ...

The underlined parts in the sentence taken as reference clearly validate what is stated in the statements given as option A and B. The statement C, however, is not mentioned in the passage.

Option C is hence the correct answer.

2.

Reference

Last paragraph, 1st sentence

I believe the time has now come for independent directors to demonstrate, if they are to do what is expected of them and to avoid liability, that they will take care and be diligent and not be mere rubber stamps.

Both the words –‘diligent’ and ‘conscientious’ are synonyms. If someone is diligent or conscientious, that person strives to do what's right and to carry out his duties. These people show care and put in a big effort.

Clearly, only the statement given as option B can be inferred here from the passage.

Option B is hence the correct answer.

3.

Reference

4th paragraph, last sentence

... The independent director, if he/she is not in agreement with a proposal, must, if he/she wants to be in the clear, state his/her disagreement and have it recorded in the minutes.

The sentence above taken as reference clearly supports what is stated in the statement III whereas the other statements affirm the circumstances an independent director is held liable or accountable in.

Clearly, option C is the correct answer.

4.

3rd paragraph, 2nd sentence

... And to a great extent he/she was part of a “hail fellow” network where controlling shareholders invited their friends to sit on their boards confident of their support. ...

"Hail fellow well met" is a somewhat archaic English idiom used when referring to a person whose behavior is hearty, friendly, and congenial and the sentence taken above as reference evidently supports what is stated in the statement given as option D.

Option D is hence the correct answer.

5.

Reference

5th paragraph, 2nd, 3rd and 4th sentences

... Company planes (which the company may not need) are used for trips to resorts abroad to hold a board meeting. Paintings by reputed artists purchased at astronomical prices adorn private homes. Homes are lavishly decorated at company expense. ...

The sentences above taken as references clearly validate all the above three statements.

Option D is hence the correct answer.

6.

2nd paragraph

Independent directors, though they may in the initial stage be invited by the controlling shareholders of a company or its incumbent managing director, are appointed by the shareholders at a General Meeting; they are so appointed to safeguard not only the best interests of all shareholders but also of all stakeholders.

Clearly the underlined part in the sentence above validates what is stated in the statement given as option B.

Option B is hence the correct answer.



7.

Reference

6th paragraph, 1st sentence

United Breweries was a very profitable company till it floated Kingfisher Airlines. ...

1st paragraph, 2nd sentence

... Under Section 149 of the Companies Act, at least one-third of the directors of a listed company must be independent. ...

3rd paragraph, 5th sentence

... The only time I can recall when there was consternation, fear, outrage and indignation was when an arrest warrant was issued on Nimesh Kampani in 2009 as he was an independent director in Nagarjuna Finance. ...

4th paragraph, 1st sentence

Section 149(12) provides that an independent director shall be liable only in respect of omission or commission by a company that had occurred with his/her knowledge, attributable through board processes, and with his consent or connivance, or where he had not acted diligently. ...

As we can observe from the sentences taken as references that the first two and the fourth statements are clearly validated by the first two references and the fourth references but in the 3rd statement the information has been distorted (in the passage no information of Mr. Kampani's being in jail has been mentioned) and thus, the statement doesn't hold valid in the given context of the passage.

Clearly, option C is the correct answer.

8.

Imbroglia (Noun):

An extremely confused, complicated, or embarrassing situation

Ex. Road ahead for India and Pakistan after Kashmir imbroglia ...

Synonyms: complicated situation, complication, complexity, problem, difficulty, predicament, plight, trouble, entanglement, confusion, muddle, mess, quandary, etc.

The synonym of the word "Imbroglia" would, therefore, be "Predicament".

Option C is hence the correct answer.

9.

Pecuniary (Adjective):

relating to or consisting of money.

Ex. He admitted obtaining a pecuniary advantage by deception.

Synonyms: financial, monetary, money, fiscal, economic, capital, commercial, budgetary
Clearly, the synonym of the word “pecuniary” is “monetary”.
Option A is hence the correct answer.

10.

Bona fides (Noun):

a person's honesty and sincerity of intention.

Ex. He went to great lengths to establish his liberal bona fides.

Clearly, the antonym of the phrase “Bona fides” is “insincerity”.

Option E is hence the correct answer.



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