

NPTEL ONLINE CERTIFICATION COURSES

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Business Law For Managers

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Module-1

Lecture 01 : Concept, Definition and Features of Company

BUSINESS LAW FOR MANAGERS

Introduction

To frame a law that enables companies to achieve global competitiveness in a fast changing economy, the Government had taken up a fresh exercise for a comprehensive revision of the Companies Act, 1956, albeit through a consultative process. The Companies Act has introduced new concepts supporting enhanced disclosure, accountability, better board governance, better facilitation of business and so on. Before going to discuss on corporate law, it is important to learn about company and its various issues.

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KEY POINTS

- Definition of a Company
- Features of a Company
- Distinction between a Company and a Partnership
- Lifting of a Corporate Veil
- Private and Public companies
- Distinction between Private and Public Company



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Company

Concept and Definition

The word ‘company’ is derived from the Latin word Com Panis (Com means ‘With or together’ and Panis means ‘Bread’), and it originally referred to an association of persons who took their meals together.

In popular parlance, a company denotes an association of like minded persons formed for the purpose of carrying on some business or undertaking

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Company

Concept and Definition

In the legal sense, a company is an association of both natural and artificial persons and is incorporated under the existing law of a country.

In terms of the Companies Act 2013, a "company" means a company incorporated under this Act or under any previous company law

In common law, a company is a "legal person" or "legal entity" separate from, and capable of surviving beyond the lives of its members.

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Company

Features

Basic features of the Company includes-

- **Corporate personality**

A company incorporated under the Act is vested with a corporate personality so it bears its own name, acts under name, has a seal of its own and its assets are separate and distinct from those of its members.

- **Company as an artificial person**

A Company is an artificial person created by law. It is not a human being but it acts through human beings.

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Company

Features



- **Company is not a citizen**:

The company, though a legal person, is not a citizen under the Citizenship Act, 1955 or the Constitution of India.

- **Company has nationality and residence**

Though it is established through judicial decisions that a company cannot be a citizen, yet it has nationality, domicile and residence.

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Company

Features

- **Limited liability**

The company, being a separate person, is the owner of its assets and bound by its liabilities. The liability of a member as shareholder, extends to the contribution to the capital of the company up to the nominal value of the shares held and not paid by him.

- **Perpetual succession:**

An incorporated company never dies, except when it is wound up as per law. Perpetual succession, means that the membership of a company may keep changing from time to time, but that shall not affect its continuity.

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Company

Features

- **Separate property**

A company being a legal person and entirely distinct from its members, is capable of owning, enjoying and disposing of property in its own name.

- **Transferability of shares**

The capital of a company is divided into parts, called shares. The shares are said to be movable property and, subject to certain conditions, freely transferable, so that no shareholder is permanently or necessarily wedded to a company.

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Company

Features

- **Capacity to sue and be sued:**

A company being a body corporate, can sue and be sued in its own name.

- **Contractual rights:**

A company, being a legal entity different from its members, can enter into contracts for the conduct of the business in its own name.



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Company

Features

- **Limitation of action:**

A company cannot go beyond the power stated in its Memorandum of Association which regulates the powers and fixes the objects of the company and provides the edifice upon which the entire structure of the company rests.

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Company

Features

- **Separate management:**

The members do not have effective and intimate control over its working and they elect their representatives as Directors on the Board of Directors of the company to conduct corporate functions through managerial personnel employed by them.

- **Voluntary association for profit:**

A company is a voluntary association for profit. It is formed for the accomplishment of some stated goals and whatsoever profit is gained is divided among its shareholders or saved for the future expansion of the company.

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Company

Features



- **Termination of existence:**

A company, being an artificial juridical person, does not die a natural death. It is created by law, carries on its affairs according to law throughout its life and ultimately is effaced by law. Generally, the existence of a company is terminated by means of winding up

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Company

Features

- Incorporated association
- Artificial person
- Separate legal entity

The facts of the famous Salomon's case were as follows :

- Salomon carried on business as a leather merchant. He sold his business for a sum 30,000 to a company formed by him along with his wife, a daughter and four sons. The purchase consideration was satisfied by allotment of 20,000 shares of 1 each and issue of

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Company

Features

- Debentures worth 10,000 secured by floating charge on the company's assets in favour of Mr. Salomon. All the other shareholders subscribed for one share of $1 each. Mr. Salomon was also the managing director of the Company. The company almost immediately ran into difficulties and eventually became insolvent and winding up commenced. At the time of winding up, the total assets of the company amounted to $ 6,050; its liabilities were $10,000 secured by the debentures issued to Mr. Salomon and $8,000 owing to unsecured trade creditors. The unsecured sundry creditors claimed the whole of the company's assets, viz. $6,050 on the ground that the company was a mere alias or agent for Salomon.

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Company

Features

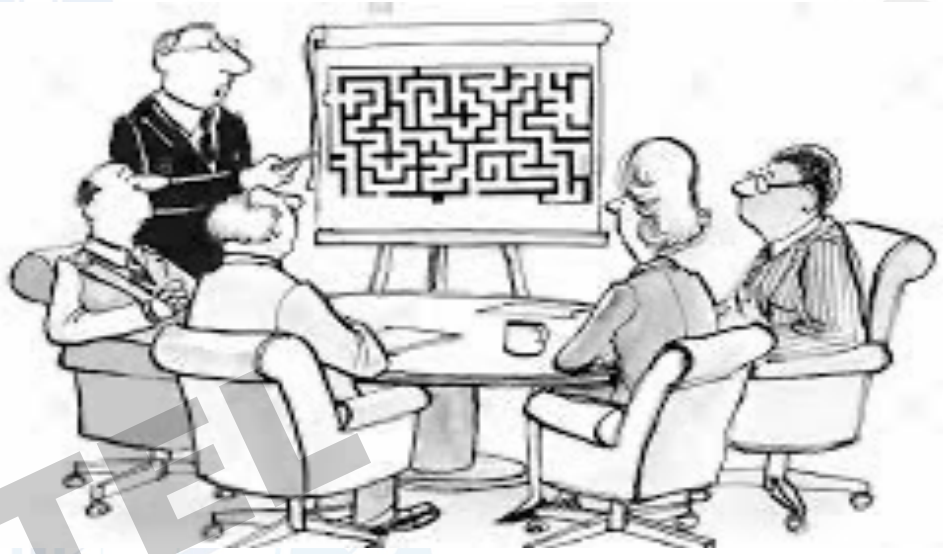
Held:

The contention of the trade creditors could not be maintained because the company being in law a person quite distinct from its members, could not be regarded as an 'alias' or agent or trustee for Salomon. Also the company's assets must be applied in payment of the debentures as a secured creditor is entitled to payment out of the assets on which his debt is secured in priority to unsecured creditors.

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Company

Features



- Limited liability
- Separate property
- Transferability of shares
- Perpetual existence
- Common Seal
- Company may sue and be sued in its own name

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Distinction Between a Company and a Partnership

Distinctions are in the context of

- Agreement, Procedure
- Registration
- Separate legal existence
- Perpetual existence
- Liability of a partner is unlimited
- The number of partners cannot exceed ten in the case of banking business and twenty in non-banking business.
- Cannot transfer his share in the partnership without the consent of all the other partners.
- The capital of a partnership is limited, as the number of partners are either ten or twenty.

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Distinction Between a Company and a Partnership

Distinctions are in the context of



- The scope of business of a partnership firm can be changed at any time with the consent of all the partners.
- Every partner is entitled to take part in the day-to-day management of the partnership firm.
- The audit of accounts in the case of a partnership firm is not compulsory. In the case of a company, audit of its accounts by a qualified auditor (i.e. a chartered accountant) is compulsory.

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Lifting of the Corporate Veil

Following are some such cases

- For the protection of revenue
- Where the company is acting as agent of the shareholders
- Where a company has been formed by certain persons to avoid their own valid contractual obligation
- Where a company has been formed for some fraudulent purpose or is a ‘sham’
- Where a company formed is against public interest or public policy.
- Where the number of members falls below the statutory minimum
- Where prospectus includes a fraudulent misrepresentation
- Investigation into related companies
- For investigation of ownership of a company
- Where in the course of winding up of a company

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CONCLUSION

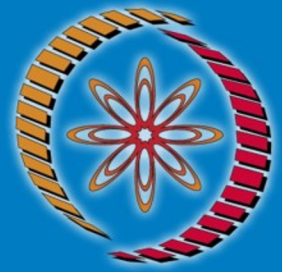
In this lecture attempt has been made to give an overall ideas about Company, its features, various types of companies and corporate laws. Learners might have been gathering knowledge from the discussion of this introductory lecture

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Lecture 02 : Various Types of Companies and Their Memberships

BUSINESS LAW FOR MANAGERS

Introduction

There are various stages of company formation starting from promotion to commencement. Accordingly, every person who are agreed in writing to become a part of the company and holds a share is considered as the member of the company. In this lecture session all these will be discussed in details.

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KEY POINTS

- Stages of Company Operation
- Types of Companies
- Types of Memberships



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Stages of Company Operation

Following stages are generally found for a company

- Formation of a Company
- Promotion
- Fixation of Duties and Liabilities of Promoters
- Registration
- Availability of Name
- Certificate of Incorporation/Consequences of Incorporation
- Certificate to Commence Business
- Pre-incorporation and Provisional Contracts.
- Memorandum of Association

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Stages of Company Operation

Following stages are generally found for a company

- Meaning of Purpose
- Form and Contents
- Articles of Association
- Meaning and Purpose
- Registration of Articles
- Subject Matter of Articles
- Prospectus
- Definition of a Prospectus
- Contents of a Prospectus



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Stages of Company Operation

Following stages are generally found for a company

- Meaning of a Share
- Classes of Shares
- Preference Share
- Equity Share
- Issue of Shares at Par, at Premium and at Discount
- Bonus Shares
- Rights Shares
- Meaning of Share Capital



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Stages of Company Operation

Following stages are generally found for a company

- Allotment of Shares
- Definition of a Member
- Modes of Acquiring Membership
- By subscribing to the memorandum of association
- By agreement and registration



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Private and Public Company

Distinction in term of the following

1. Minimum number of members.
2. Maximum number of members.
3. Right to transfer shares is restricted.
4. Issue a prospectus.
5. Who can commence business immediately.
6. Statutory meeting
7. Directors of a private company are not required to retire by rotation.

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Distinction Between Private and Public Company

Distinction in term of

8. The number of directors in a private company may be increased to any extent without the permission of the Central Government, but in case of a public company if the number of directors is to be more than twelve then the approval of the Central Government is necessary.
9. Two members have to be personally present to form the quorum in a private company but in a public company this number is five members.
10. No restrictions on managerial remuneration.

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Other Types of Companies

Various other types of companies are-

- Government Companies
- Foreign Companies
- Holding and Subsidiary Companies
- Associate companies/Joint Venture Companies
- Investment Companies
- Producer Companies
- Nidhi Companies
- Dormant Companies
- One Man Company



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Concept of Some Companies

Government Company

- Section 617 defines a Government Company as any company in which not less than 51% of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a Government Company.

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Concept of Some Companies

Foreign Companies

Foreign Company is clearly laid down under Section 2 Sub-section 42 of the Companies Act 2013 (New). A foreign company is any company or body corporate incorporated outside India which -

- has a place of business in India whether by itself or through an agent, physically or through electronic mode, and
- conducts any business activity in India in any other manner.

Here, 'a place of business' means premises where there is a physical or visible indication that the company may be contacted there.

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Concept of Some Companies

Holding and Subsidiary Companies

➢ Holding Company

Holding company is a company having controlling power or majority of voting powers of another company (subsidiary as referred above). Holding company is also called as parent company.

➢ Subsidiary Company

It is a company in which other company controls the composition of its Board of Directors or its more than 50% of voting powers. In case, where 100% voting powers are held by single holding company, the subsidiary is known as Wholly Owned Subsidiary (WOS) of the holding.

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Concept of Some Companies

Associate and Joint Venture Company

- **Associate Company**

An associate company, in its broadest sense, is a corporation in which a parent company possesses an ownership stake.

- **Joint Venture Company**

Joint venture company is a business arrangement in which two or more companies combine resources on a project or service.

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Concept of Some Companies



Investment Company

- The company which is a corporation or trust engaged in the business of investing the pooled capital of investors in financial securities. This is most often done either through a closed-end fund or an open-end fund to hold and manage securities for investment purposes.

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Concept of Some Companies

Producer Company

A producer company is a company that allows farmers' cooperatives to function a corporate entity with the objective relating to any or all of the following-

- Production
- Procurement
- Pooling
- Marketing
- Harvesting
- Grading
- Handling
- Selling



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Concept of Some Companies

Nidhi Company

A Nidhi company is a type of company in the Indian non-banking finance sector, recognized under section 406 of the Companies Act, 2013. Their core business is borrowing and lending money between their members. They are also known as Permanent Fund, Benefit Funds, Mutual Benefit Funds and Mutual Benefit Company

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Concept of Some Companies

Dormant Companies

The word “Dormant” means inactive or inoperative. A dormant company is an excellent opportunity to start a company for a future project or hold an asset/intellectual property without having significant accounting transactions. On the other hand if a company has not filed its annual returns for two consecutive years then such a company will also be called as a dormant company.

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Concept of Some Companies

One-man Company



One Person Company (OPC) is a company incorporated by a single person. Before the enforcement of the Companies Act, 2013, a single person could not establish a company. If an individual wanted to establish his business, he/she could opt only for a sole proprietorship as there had to be a minimum of two directors and two members to establish a company.

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Membership in Company

Who Can Become a Member

- The position of a minor as a member of a company is follows as :
- As a minor is wholly incompetent to enter into a contract [Mohiri Bibi v. Dharmodas Ghose, (1903) 30 Cal. 539 (P.C.)], an agreement by a minor to take shares is void and hence, he cannot be a member of a company.
- If shares are allotted to a minor in response to his application and his name entered on the Register of members, in ignorance of the fact of minority, the company can repudiate the allotment and remove his name from the Register on coming to know of the minority of the member. The company must repay all money received from his in respect of the allotted shares.

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Membership in Company

Who Can Become a Member

- The minor can also repudiate the allotment during his minority and he shall be returned the amount he paid towards the allotment of shares.
- Company
- A partnership firm – cannot be registered as a member in the register of members of a company.
- A foreigner

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CONCLUSION

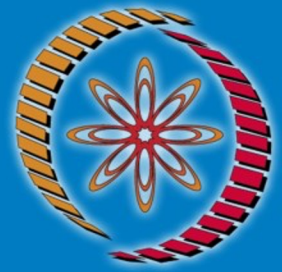
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In this lecture session discussion has been made on stages of company operation, types of companies, types of memberships. The learners may have good lessons from this part of lecture.



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Module-1

Lecture 03 : Meetings of a Company and Memorandum of Associations

BUSINESS LAW FOR MANAGERS

Meetings in every company have vital role to play. It is considered as the blood for a company to operate in its desired direction. Considering the fact discussion has been made in details about different meetings in a company

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KEY POINTS

- Various Meetings of a Company
- Essentials of a Valid Meeting/Quorum
- Board of Directors
- Memorandum of Associations

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Company: Various Meetings

Types of Meetings

There are four types of meetings held in a company in general. Such as

- Statutory Meeting
- Annual general Meeting
- Extraordinary General meeting and
- Class Meetings



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Company: Statutory Meeting

Statutory Meeting

This is the first meeting of the shareholders a company and held only once in lifetime of a public limited company. It is held within not less than one month and not more than six months from the date at which the company is entitled to commence a business, hold a meeting of the members.



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Company: Requisites of a Valid Meeting

Requisites

A meeting can be considered as valid if the requirements as noted below are satisfied:

- The meeting must be convened duly by proper authority.
- Proper notice must be served in the prescribed manner.
- A quorum must be present
- A chairperson should be there to preside over.
- Minutes of the proceedings must be kept

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Company: General Meeting

Annual General Meeting

An annual general meeting (AGM) is the yearly gathering of a company's interested shareholders. At an annual general meeting (AGM), directors of the company present the company's financial performance and shareholders vote on the issues at hand.

As per companies Act (2013), Annual General Meeting is held to have an interaction between the management and the shareholders of the company.

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Company: General Meeting

Annual General Meeting

- Certain Typical Issues in Respect of AGM
- Extra- ordinary General Meeting (EGM)
- Matters Relating to General Meetings
- Quorum for Meeting
- Voting (Ascertaining the Sense of the House)
- Passing of resolutions by postal ballot



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Company: General Meeting

Procedure of Holding Annual General Meeting

The company must give a clear 21 days' notice to its members for calling the AGM mentioning the place, the date and day of the meeting, the hour and agenda at which the meeting is scheduled. A company should send the notice of the AGM to:

- All members of the company including their legal representative of a deceased member and assignee of an insolvent member.
- The statutory auditor(s) of the company.
- All director(s) of the company.

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Company: General Meeting

Annual General Meeting: Matter Discussed in General

- Consideration and adoption of the audited financial statements.
- Consideration of the Director's report and auditor's report.
- Dividend declaration to shareholders.
- Appointment of directors to replace the retiring directors.
- Appointment of auditors and deciding the auditor's remuneration.
- Apart from the above ordinary business, any other business may be conducted as a special business of the company.

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Company: General Meeting

Annual General Meeting: Quorum

In the case of a private company, two members present at the meeting shall be the quorum for the AGM. For a public company, the quorum is :

- Five members present at the meeting if the number of members is within one thousand.
- Fifteen members present at the meeting if the number of members is more than one thousand but within five thousand.
- Thirty members present at the meeting if the number of members is more than five thousand.

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Company: Board of Directors

Background

Board of directors has crucial role in order to keep a firm on its own feet like policy formation, corporate-decision making, overall management and abidance of rules and regulations and taking appropriate action even during crisis



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Company: Board of Directors

Organisational Structure

The Board size is limited by a company specifying minimum and maximum by its Article of Association. Companies commonly have 3 to 31 directors. The structure may be as follows:

- **Chairman**
- **Managing Director**
- **Executive Director**
- **Non-Executive Director**
- **Other designations**



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Company: Board of Directors

Non-profit and Private Companies

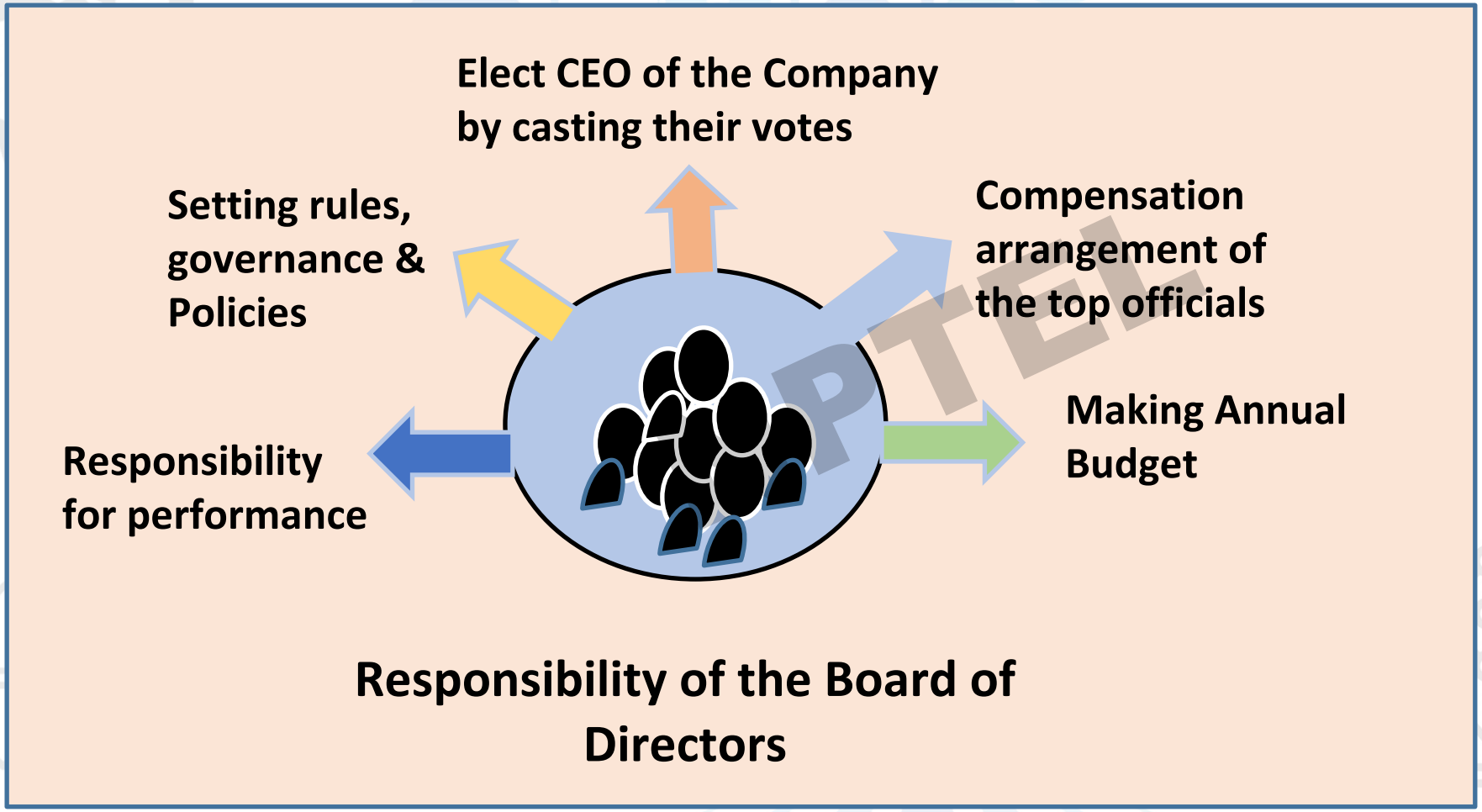


Non-profit and Private companies usually appoint board members from among the owner or family members and executives.

For non-profit entities, a trustee board is very common to exists

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Company: Board of Directors



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Memorandum of Association (MOA)

Basic Features

Memorandum of Association is accessible to the public and it describes the following:

- **Name of the company**
- **Registered address of the company**
- **Name of shareholders**
- **Distribution of shares**

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Memorandum of Association (MOA)

Important Clauses/Contents

- Name clause
- Registered office clause
- Objective clause
- Liability clause
- Capital clause
- Association/Subscription clause



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Memorandum of Association (MOA)

Name Clause

The Company must have its name to establish its identity.

- **It is free to choose any name but it must not be undesirable or it should not be identical to the name of the existing company.**
- **The name should not be prohibited one.**
- **The name of the company must end with the word 'limited' as the liability is limited up to the extent of their shares.**
- **In the case of private limited company the word 'private limited' to be used as the last word of the name**

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Memorandum of Association (MOA)

Registered office clause

- This clause is important as it says the residence for the purpose of the communication with the company.
- Every company must have a registered office from the day it starts its business or within 30 days of getting the Certificate of Incorporation, whichever is earlier.
- Memorandum of Association must state the name of the State in which the registered office of the company is situated.
- It determines the jurisdiction of the company and also mentions the place where all the records of company are maintained.

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Memorandum of Association (MOA)

Objective Clause

It is the essence of memorandum that indicates a series of objects for which the company is established. Such as

- Main objectives
- Subsidiary Objectives
- Other Objectives



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Memorandum of Association (MOA)

Liability Clause

The liability of the members is limited to the extent of the value of shares purchased by them. In a case if a shareholder has to pay the unpaid amount on the share investment, he can be compelled to pay to the extent of unpaid amount on the shares, nothing more

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Memorandum of Association (MOA)

Capital Clause

Amount of share capital with which the company is to be registered and its division into shares of a fixed amount must be stated in the Memorandum of Association of a company limited by shares.

- **The authorized capital should be mentioned**
- **A company is not authorised to issue above authorized capital**

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Memorandum of Association (MOA)

Association/Subscription Clause

This clause contains the followings:

- **Declaration of members**
- **Name, addresses and occupation od the subscribers**
- **Signatures attested by proper witness**



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CONCLUSION

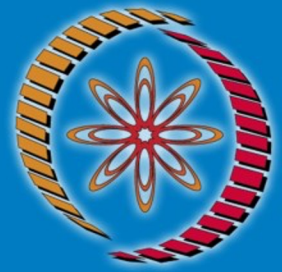
In this lecture session, details on Annual General Meeting of the Companies, Various Meetings of a Company, Essentials of a Valid Meeting/Quorum, Board of Directors and Memorandum of Associations have been discussed along with various issues relating to Memorandum of Associations

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Lecture 04 : Corporate Social Responsibility (CSR)

BUSINESS LAW FOR MANAGERS

Introduction

Corporate social responsibility has become a domain in business operation and reporting. Every corporation has a policy concerning CSR and produces a report detailing its activities. These are claimed to be recognized as corporate activities which socially responsible and activities which are not socially responsible. This lecture session will give a good lesion to all of us on understanding corporate social responsibility and its other issues.

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KEY POINTS

- CSR in Companies Act 2013
- Some important definitions
- Operating provisions of the rules



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Corporate Social Responsibility

Section 135 of Companies Act 2013

(1) Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

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Corporate Social Responsibility

Section 135 of Companies Act 2013

(2) The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

(3) The Corporate Social Responsibility Committee shall,—

(a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;

(b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and

(c) monitor the Corporate Social Responsibility Policy of the company from time to time.

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Corporate Social Responsibility



Section 135 of Companies Act 2013

(4) The Board of every company referred to in sub-section (1) shall , —

(a) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and

(b) ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

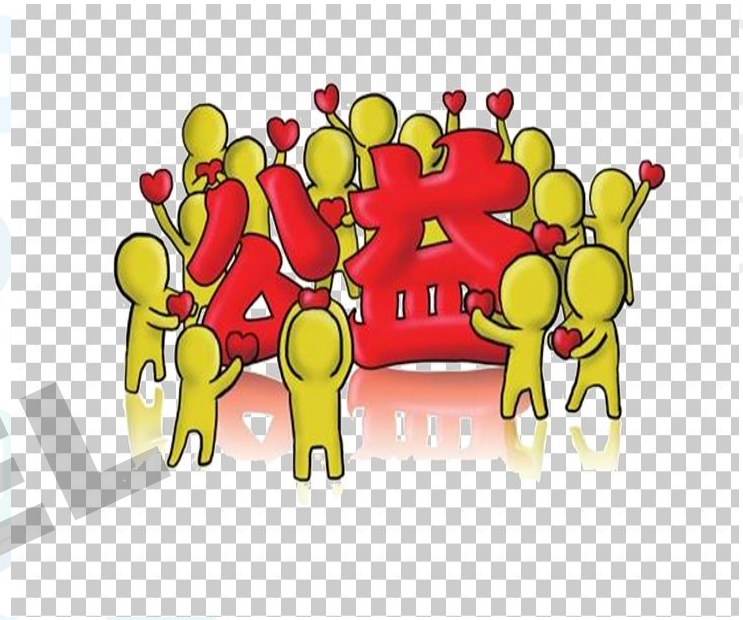
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Corporate Social Responsibility

Section 135 of Companies Act 2013

(*5*) The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy:

Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities:



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Corporate Social Responsibility

Section 135 of Companies Act 2013

Provided further that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

Explanation.—**For the purposes of this section "average net profit" shall be calculated in accordance with the provisions of section 198.**

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Corporate Social Responsibility Rules

Under Section 135 of the Companies Act 2013 :: Guiding Principles

CSR is the process by which an organization thinks about and evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies. Thus CSR is not charity or mere donations. It is a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies do not limit themselves to using resources to engage in activities that increase only their profits.

They use CSR to integrate economic, environmental and social objectives with the company's operations and growth.

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Corporate Social Responsibility Rules

Under Section 135 of the Companies Act 2013 :: Guiding Principles

In exercise of the powers conferred under clause (o) and clause (q) of sub-section 3 of Section 134 read with Section 135 and sub-sections (1) and (2) of section 469 of the Companies Act, 2013 the Central Government hereby makes the following Rules namely:

Part I - Short title and commencement :-

1. **These rules may be called the Corporate Social Responsibility Rules, 2013.**
2. **They shall come into force on the date of their publication in the official gazette and shall be applicable from the financial year 2014-15.**

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Corporate Social Responsibility Rules

Some Important Definitions and Points from Draft Rules:

- Corporate Social Responsibility' means Corporate Social Responsibility (CSR) as defined in Section 135 of the Companies Act 2013;
- 'Net Profit' for the section 135 and these rules shall mean, net profit before tax as per books of accounts and shall not include profits arising from branches outside India.
- 2% CSR spending would be computed as 2% of the average net profits made by the company during every block of three years. For the purpose of First CSR reporting the Net Profit shall mean average of the annual net profit of the preceding three financial years ending on or before 31 March 2014.

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Corporate Social Responsibility Rules

Some Important Definitions and Points from Draft Rules:

- Reporting will be done on an annual basis commencing from FY 2014 - 15.
- Tax treatment of CSR spend will be in accordance with the IT Act as may be notified by CBDT.
- Words and expressions used in these Rules and not defined herein but defined in the Act shall have the meaning respectively assigned to them in the Act.

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Corporate Social Responsibility Rules

PART II – Operating Provisions of the Rules

1. CSR activities may generally be conducted as projects or programmes (either new or ongoing) excluding activities undertaken in pursuance of the normal course of business of a company. The CSR Committee constituted under sec. 135(1), shall prepare the CSR Policy of the company which shall include the following:

a. specify the projects and programmes that are to be undertaken.

b. prepare a list of CSR projects/programmes which a company plans to undertake during the implementation year, specifying modalities of execution in the areas/sectors chosen and implementation schedules for the same.

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Corporate Social Responsibility Rules

PART II – Operating Provisions of the Rules

c. CSR projects/programmes of a company may also focus on integrating business models with social and environmental priorities and processes in order to create shared value.

d. CSR Policy of the company should provide that surplus arising out of the CSR activity will not be part of business profits of a company.

e. CSR Policy would specify that the corpus would include the following: a. 2% of the average net profits, b. any income arising there from c. surplus arising out of CSR activities.

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Corporate Social Responsibility Rules

PART II – Operating Provisions of the Rules

2. The CSR Committee, shall prepare a transparent monitoring mechanism for ensuring implementation of the projects / programmes / activities proposed to be undertaken by the company.

3. Where a company has set up an organization which is registered as a Trust or Section 8 Company, or Society or Foundation or any other form of entity operating within India to facilitate implementation of its CSR activities in accordance with its stated CSR Policy, the following shall apply:-

a. The contributing company would need to specify the projects/programmes to be undertaken by such an organization, for utilizing funds provided by it;

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Corporate Social Responsibility Rules

PART II – Operating Provisions of the Rules

b. The contributing company shall establish a monitoring mechanism to ensure that the allocation is spent for the intended purpose only;

4. A company may also conduct/implement its CSR programmes through Trusts, Societies, or Section 8 companies operating in India, which are not set up by the company itself.

5. Such spends may be included as part of its prescribed CSR spend only if such organizations have an established track record of at least three years in carrying on activities in related areas.

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Corporate Social Responsibility Rules

PART II – Operating Provisions of the Rules

6. Companies may collaborate or pool resources with other companies to undertake CSR activities and any expenditure incurred on such collaborative efforts would qualify for computing the CSR spending.

7. Only such CSR activities will be taken into consideration as are undertaken within India.

8. Only activities which are not exclusively for the benefit of employees of the company or their family members shall be considered as CSR activity.

9. All companies falling under the provision of Section 135 (1) of the Act shall report, in the prescribed format, the details of their CSR initiatives in the Directors' Report and in the company's website.

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CONCLUSION

This lecture session has covered various provisions for CSR in Companies Act 2013, some important definitions and operating provisions of the rules. The learners will be able to understand these and may apply in their professional practice.

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Business Law For Managers

KAUSHIK MUKHERJEE

COMPANY SECRETARY & CHIEF LEGAL OFFICER - SECRETARIAL AND LEGAL, PCBL

Module-1

Lecture 05 : Reporting and Various Activities under CSR

BUSINESS LAW FOR MANAGERS

Introduction

Reporting in a company is done through the process of compiling the information within a specific functional area and reviewing such as finance, sales, operations, inventory control or any area of the business where performance is monitored and measured.

CSR reporting decisively influences a firm's CSR ratings because CSR rating agencies utilize publicly disclosed CSR information to assess and rank a firm's CSR performance

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KEY POINTS

- Format of Annual Report
- Activities under CSR
- Corporate Citizenship
- Contributors on Corporate Social Responsibility



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Annexure-1: Format for the Annual Report on CSR



Initiatives to be Included in the Board Report by Qualifying Companies

1. Provide a brief outline of the Company's CSR Policy including the Statement of Intent reflecting the ethos of the company, broad areas of CSR interest and an overview of activities proposed to be undertaken.
2. Indicate the web-link to the CSR Policy. The Policy should include the full list of projects/activities/programmes proposed to be undertaken by the company.
3. The board Report referring to any financial year initiating on or after the 1st April 2014, shall include an Annual Report on CSR.
4. In case of foreign company, the balance sheet filed shall contain an Annexure regarding a report on CSR

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Annexure-1: Format for the Annual Report on CSR

5. The Composition of CSR Committee

- Every company to which CSR criteria is applicable shall constitute a Corporate Social Responsibility of the Board (i.e. CSR Committee).
- Minimum 3 or more directors must form CSR Committee.
- Among those 3 directors, at least 1 director must be an independent director.
- An unlisted public company or a private company shall have its CSR Committee without any independent director if an independent director is not required.
- In case of a foreign company, the CSR Committee shall comprise of at least 2 persons of which one person shall be a person resident in India authorized to accept on behalf of the foreign company – the services of notices and other documents.

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Annexure-1: Format for the Annual Report on CSR



Initiatives to be Included in the Board Report by Qualifying Companies

6. Average Net Profit of the company for last 3 financial years

7. Threshold Limit-(2% of this amount as in 4 above)

8. Details of CSR activities/projects undertaken during the year:

a. total amount to be spent for the year

b. amount carried forward from earlier years

c. amount spent during the year as below

d. amount carried forward for the year.

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Annexure-1: Format for the Annual Report on CSR

Initiatives to be Included in the Board Report by Qualifying Companies

9. In case the company has failed to spend the 2% of the Average Net Profit (INR) of the last 3 financial years, please provide the reasons for not spending the amount.

10. A Responsibility Statement, of the CSR Committee, that the CSR policy implementation and monitoring thereof is, in letter and spirit, in compliance with CSR objectives.



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Schedule VII (under Section 135)

Activities which may be included by companies in their Corporate Social Responsibility Policies

Activities relating to:—

(i) Eradicating extreme hunger and poverty;

(ii) Promotion of education;

(iii) Promoting gender equality and empowering women;

(iv) Reducing child mortality and improving maternal health;

(v) Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;

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Schedule VII (under Section 135)

Activities which may be included by companies in their Corporate Social Responsibility Policies

(vi) Ensuring environmental sustainability;

(vii)Employment enhancing vocational skills;

(viii) Social business projects;

(ix) Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and

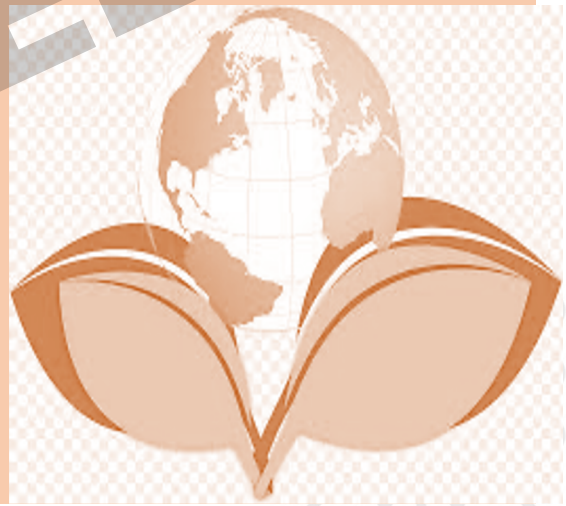
(x) Such other matters as may be prescribed.

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7 Deadly Sins as rightly preached by Mahatma Gandhi

Mahatma Gandhi said that seven things will destroy us. Each of these deadly sins (as noted down below) is an explicit external standard or something that is based on natural principles and laws, not on social values.

- Wealth Without Work
- Pleasure Without Conscience
- Knowledge Without Character
- Commerce (Business) Without Morality (Ethics)
- Science Without Humanity
- Religion Without Sacrifice
- Politics Without Principle



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We Cannot Talk Corporate Social Responsibility Without Talking Tax



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INESCAPABLE TRUTH

- ✓ Philanthropy
- ✓ Compulsion / Pressure
- ✓ Strategic
- ✓ Only Strategic CSR can be sustainable CSR



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CONCLUSION

This part of lecture has covered the issues like format of annual report, activities under CSR, corporate citizenship and contributors on Corporate Social Responsibility, which are essential for the learners to learn all about these.

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THANK YOU !