

THE COMPANIES (AMENDMENT) BILL, 2015*

Bill No. 185-C of 2014

A BILL to amend the Companies Act, 2013.

Be it enacted by Parliament in the Sixty-Sixth Year of the Republic of India as follows:—

Short title and commencement

1. (1) This Act may be called the Companies (Amendment) Act, 2015.

(2) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint and different dates may be appointed for different provisions of this Act and any reference in any provision to the commencement of this Act shall be construed as a reference to the coming into force of that provision.

Amendment of section 2

2. In section 2 of the Companies Act, 2013 (18 of 2013) (hereinafter referred to as the principal Act),—

- (i) in clause (68), the words "of one lakh rupees or such higher paid-up share capital" shall be omitted;
- (ii) in clause (71), in sub-clause (b), the words "of five lakh rupees or such higher paid-up capital," shall be omitted.

Amendment of section 9

3. In section 9 of the principal Act, the words "and a common seal" shall be omitted.

Omission of section 11

4. Section 11 of the Principal Act shall be omitted.

Amendment of section 12

5. In section 12 of the principal Act, in sub-section (3), for clause (b), the following clause shall be substituted, namely:—

"(b) have its name engraved in legible characters on its seal, if any;"

Amendment of section 22

6. In section 22 of the principal Act,—

(i) in sub-section (2),—

- (a) for the words "under its common seal", the words "under its common seal, if any," shall be substituted;
- (b) the following proviso shall be inserted, namely:—

"Provided that in case a company does not have a common seal, the authorisation under this sub-section shall be made by two directors or by a director and the Company Secretary, wherever the company has appointed a Company Secretary.";

- (ii) in sub-section (3), the words "and have the effect as if it were made under its common seal", shall be omitted.

Amendment of section 46

7. In section 46 of the principal Act, in sub-section (1), for the words "issued under the common seal of the company", the words "issued under the common seal, if any, of the company or signed by two directors or by a director and the Company Secretary, wherever the company has appointed a Company Secretary" shall be substituted.

Insertion of new section 76A

8. After section 76 of the principal Act, the following section shall be inserted, namely: -

*"76A. Punishment for contravention of section 73 or section 76.—*Where a company accepts or invites or allows or causes any other person to accept or invite on its behalf any deposit in contravention of the manner or the conditions prescribed under section 73 or section 76 or rules made thereunder or if a company fails to repay the deposit or part thereof or any interest due thereon within the time specified under section 73 or section 76 or rules made thereunder or such further time as may be allowed by the Tribunal under section 73,—

- (a) the company shall, in addition to the payment of the amount of deposit or part thereof and the interest due, be punishable with fine which shall not be less than one crore rupees but which may extend to ten crore rupees; and
- (b) every officer of the company who is in default shall be punishable with imprisonment which may extend to seven years or with fine which shall not be less than twenty-five lakh rupees but which may extend to two crore rupees, or with both:

Provided that if it is proved that the officer of the company who is in default, has contravened such provisions knowingly or wilfully with the intention to deceive the company or its shareholders or depositors or creditors or tax authorities, he shall be liable for action under section 447."

Amendment of section 117

9. In section 117 of the principal Act, in sub-section (3),—

- (i) in clause (g), the word "and" occurring at the end shall be omitted;
- (ii) after clause (g), the following proviso shall be inserted, namely:—

"Provided that no person shall be entitled under section 399 to inspect or obtain copies of such resolutions; and".

Amendment of section 123

10. In section 123 of the principal Act, in sub-section (1), after the third proviso, the following proviso shall be inserted, namely:—

"Provided also that no company shall declare dividend unless carried over previous losses and depreciation not provided in previous year or years are set off against profit of the company for the current year."

Amendment of section 124

11. In section 124 of the principal Act, in sub-section (6),—

- (i) for the words, brackets and figure "unpaid or unclaimed dividend has been transferred under sub-section (5) shall also be", the words "dividend has not been paid or claimed for seven consecutive years or more shall be" shall be substituted;
- (ii) after the proviso, the following explanation shall be inserted, namely:—

"Explanation. - For the removal of doubts it is hereby clarified that in case any dividend is paid or claimed for any year during the said period of seven consecutive years, the share shall not be transferred

Amendment of section 134

12. In section 134 of the principal Act, in sub-section (3), after clause (c), the following clause shall be inserted, namely:—

"(ca) details in respect of frauds reported by auditors under sub-section (12) of section 143 other than those which are reportable to the Central Government;"

Amendment of section 143

13. In section 143 of the principal Act, for sub-section (12), the following sub-section shall be substituted, namely:—

"(12) Notwithstanding anything contained in this section, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed:

Provided that in case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed:

Provided further that the companies, whose auditors have reported frauds under this sub-section to the audit committee or the Board but not reported to the Central Government, shall disclose the details about such frauds in the Board's report in such manner as may be prescribed."

Amendment of section 177

14. In section 177 of the principal Act, in sub-section (4), in clause (iv), the following proviso shall be inserted, namely:—

"**Provided** that the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to such conditions as may be prescribed;"

Amendment of section 185

15. In section 185 of the principal Act, in sub-section (1), in the proviso, after clause (b) the following clauses and proviso shall be inserted, namely:—

- "(c) any loan made by a holding company to its wholly owned subsidiary company or any guarantee given or security provided by a holding company in respect of any loan made to its wholly owned subsidiary company; or
- (d) any guarantee given or security provided by a holding company in respect of loan made by any bank or financial institution to its subsidiary company:

Provided that the loans made under clauses (c) and (d) are utilised by the subsidiary company for its principal business activities."

Amendment of section 188

16. In section 188 of the principal Act,

- (a) in sub-section (1),—
 - (i) for the words "special resolution", at both the places where they occur, the word "resolution" shall be substituted;
 - (ii) after the third proviso, the following proviso shall be inserted, namely:—

"Provided also that the requirement of passing the resolution under first proviso shall not be applicable for transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.";

(b) in sub-section (3), for the words "special resolution", the word "resolution" shall be substituted.

Amendment of section 212

17. In section 212 of the principal Act, in sub-section (6), for the words, brackets and figures "the offences covered under sub-sections (5) and (6) of section 7, section 34, section 36, sub-section (1) of section 38, sub-section (5) of section 46, sub-section (7) of section 56, sub-section (10) of section 66, sub-section (5) of section 140, sub-section (4) of section 206, section 213, section 229, sub-section (1) of section 251, sub-section (3) of section 339 and section 448 which attract the punishment for fraud provided in section 447", the words and figures "offence covered under section 447" shall be substituted.

Amendment of section 223

18. In section 223 of the principal Act, in sub-section (4), in clause (a), for the words "by the seal", the words "by the seal, if any," shall be substituted.

Amendment of section 248

18A. In section 248 of the principal Act, in sub-section (1),—

- (i) in clause (a), after the word "incorporation", the word "or" shall be inserted;
- (ii) clause (b) shall be omitted.

Amendment of section 419

19. In section 419 of the principal Act, in sub-section (4), the words "or winding up" shall be omitted.

Amendment of section 435

20. If section 435 of the principal Act, in sub-section (1),—

- (i) for the words "trial of offences under this Act", the words "trial of offences punishable under this Act with imprisonment of two years or more" shall be substituted;
- (ii) the following proviso shall be inserted, namely:—

"Provided that all other offences shall be tried, as the case may be, by a Metropolitan Magistrate or a Judicial Magistrate of the First Class having jurisdiction to try any offence under this Act or under any previous company law."

Amendment of section 436

21. In section 436 of the principal Act, in sub-section (1), in clause (a), for the words "all offences under this Act", the words, brackets and figures "all offences specified under sub-section (1) of section 435" shall be substituted.

Amendment of section 462

22. In section 462 of the principal Act, for sub-section (2), the following sub-sections shall be substituted, namely:—

"(2) A copy of every notification proposed to be issued under sub-section (1), shall be laid in draft before each House of Parliament, while it is in Session, for a total period of thirty days, and if, both Houses agree in disapproving the issue of notification or both Houses agree in making any modification in the notification, the notification shall not be issued or, as the case may be, shall be issued only in such modified form as may be agreed upon by both the Houses.

(3) In reckoning any such period of thirty days as is referred to in sub-section (2), no account shall be taken of any period during which the House referred to in sub-section (2) is prorogued or adjourned for

more than four consecutive days.

(4) The copies of every notification issued under this section shall, as soon as may be after it has been issued, be laid before each House of Parliament".

STATEMENT OF OBJECTS AND REASONS

Companies Act, 2013 (Act) was notified on 29th August, 2013. Barring provisions relating to Chapters XV to XX and certain other provisions relating to setting up of/exercise of powers by National Company Law Tribunal (NCLT)/National Company Law Appellate Tribunal (NCLAT); Investor Education and Protection Fund (IEPF); National Financial Reporting Authority (NFRA) and Special Court, all provisions of the Act have been brought into force with effect from 1st April, 2014.

After the commencement of provisions of the Act, Government have received representations from various stakeholders (including Industry Chambers, Professional Institutes, Legal Experts and Ministries/Departments) expressing practical difficulties in complying with some of the requirements laid down in the commenced provisions. It was noted that some of the issues raised and suggestions made can be addressed only by way of amendment in the Act and their immediate resolution is also considered to be necessary. Some of the amendments are also required with a view to further facilitate 'ease of doing business' and deal with certain difficulties in this behalf brought out by Industry Chambers and other agencies.

The proposed amendments deal with related party transactions, fraud reporting by auditors, public inspection of Board resolutions, responsibilities of audit committee, restrictions on bail, making common seal optional, requirement for minimum paid-up share capital, strength of benches for hearing winding up cases, jurisdiction of special courts to try offences.

Amendments are also being proposed in the Act to incorporate some of the provisions earlier left out inadvertently, setting off of past losses/depreciation before declaring dividend and exemptions for giving of loans/guarantee/security by holding companies to its subsidiaries.

Accordingly, it has been decided to move amendments in the Act through an Amendment Bill. The Bill, namely, the Companies (Amendment) Bill, 2014, *inter alia*, contains the amendments to the Companies Act, 2013 as under:—

- (i) to amend clauses (68), (71) of section 2 and section 11 of the said Act to omit the requirement for minimum paid-up share capital, and consequential changes;
- (ii) to amend sections 9, 12, 22, 46 and 223 of the said Act for making common seal optional, and consequential changes for authorisation for execution of documents;
- (iii) to insert a new section 76A to provide for punishment for deposits accepted in violation of the provisions of the said Act;
- (iv) to amend clause (g) of sub-section (3) of section 117 to prohibit public inspection of Board resolutions filed in the Registry;
- (v) to amend sub-section (1) of section 123 of the said Act to include provisions for writing off past losses/depreciation before declaring dividend for the year;
- (vi) to amend sub-section (6) of section 124 of the said Act for rectifying the requirement of transferring equity shares for which unclaimed/unpaid dividend has been transferred to the Investors Education and Protection Fund even though subsequent dividend(s) has been claimed;
- (vii) to amend sub-section (3) of section 134 and sub-section (12) of section 143 of the said Act to incorporate enabling provisions to prescribe thresholds beyond which fraud shall be reported to the Central Government (below the threshold, it will be reported to the Audit Committee). Disclosures for the latter category also to be made in the Board's Report;
- (viii) to amend clause (iv) of sub-section (4) of section 177 of the said Act to provide provision empowering Audit Committee to give omnibus approvals for related party transactions on annual basis;

- (ix) to amend section 185 of the said Act to provide for exemption u/s 185 (Loans to Directors) provided for loans to wholly owned subsidiaries and guarantees/securities on loans taken from banks by subsidiaries;
- (x) to amend sub-section (1) of section 188 of the said Act for replacing 'special resolution' with 'resolution' for approval of related party transactions by non-related shareholders;
- (xi) to amend sub-section (1) of section 188 of the said Act to exempt related party transactions between holding companies and wholly owned subsidiaries (WOS) from the requirement of approval of non-related shareholders';
- (xii) to amend sub-section (6) of section 212 of the said Act to provide for bail restrictions to apply only for offence relating to fraud u/s 447;
- (xiii) to amend sub-section (4) of section 419 of the said Act to provide for winding up cases to be heard by 2-member Bench instead of a 3-member Bench; and
- (xiv) to amend sections 435 and 436 of the said Act to provide for that Special Courts to try only offences carrying imprisonment of two years or more.

The Bill seeks to achieve the above objectives.

MEMORANDUM REGARDING DELEGATED LEGISLATION

Clause 13 of the Bill, *inter alia*, proposes to substitute sub-section (12) of section 143 of the Companies Act, 2013 so as to confer power upon the Central Government to specify amount of fraud, beyond which the matter shall be reportable by the auditor to the Central Government. This clause also empowers Central Government to specify the manner of reporting to the Central Government or the Audit Committee or Board as the case may be. Further, this clause also empowers the Central Government to specify the manner in which the details about such frauds are to be disclosed in the Board's report.

Clause 14 of the Bill, *inter alia*, proposes to insert a proviso in clause (vi) of sub-section (4) of section 177 of the Companies Act, 2013 so as to confer power upon the Central Government to specify such conditions with which the Audit Committee may make omnibus approval for related party transactions.

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*As passed by Lok Sabha.