<u>CORPORATE SOCIAL RESPONSIBILITY (CSR) UNDER SECTION 135 OF THE COMPANIES ACT, 2013 READ WITH THE COMPANIES (CORPORATE SOCIAL RESPONSIBILITY POLICY) RULES, 2014</u>

<u>WHAT IS THE CSR?</u>

CSR is a Concept whereby Companies not only consider their profitability and growth, but also the interests of society and the environment - by taking responsibility for the impact of their activities on stakeholders, environment, consumers, employees, communities, and all other members in the public domain.

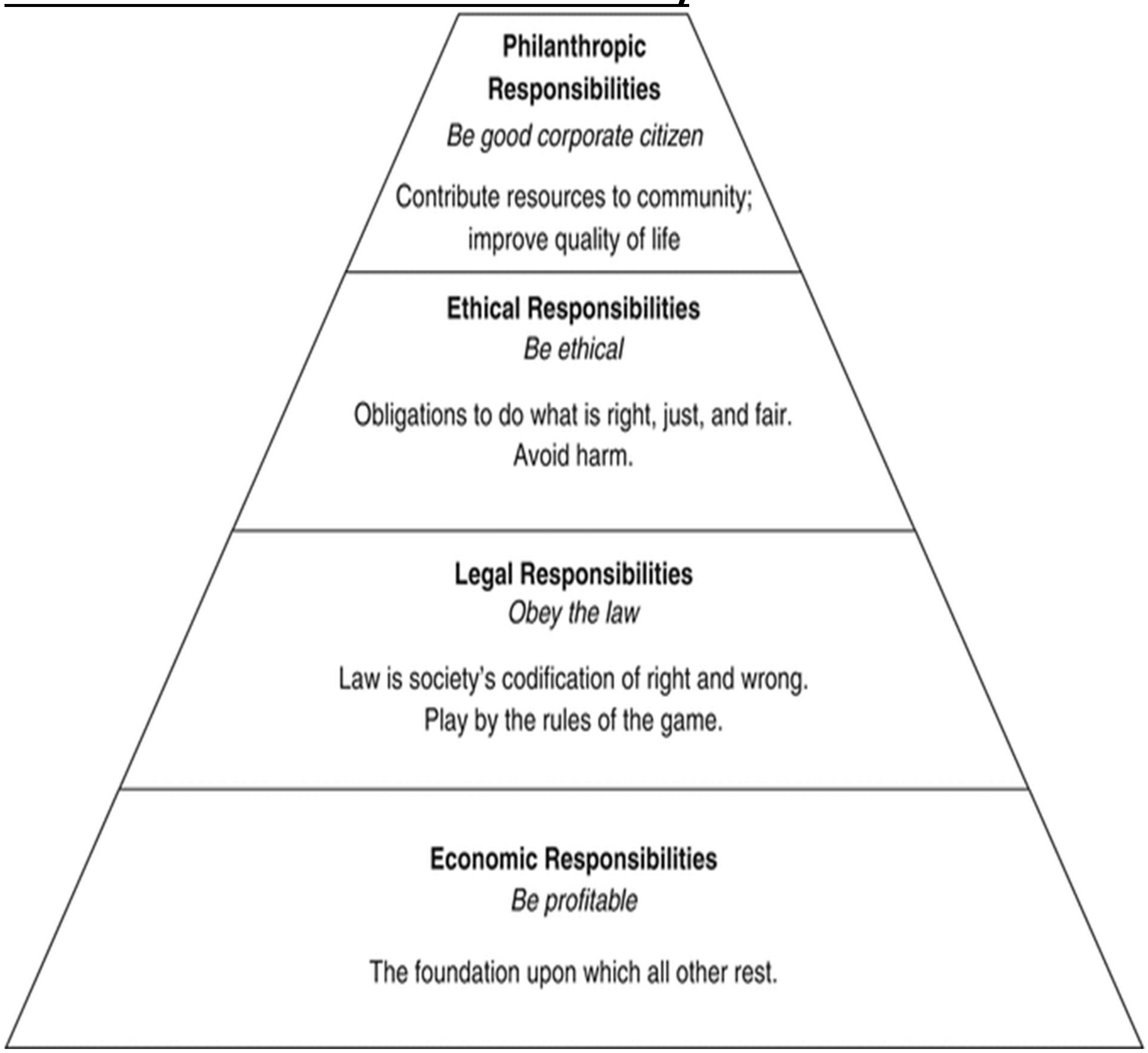
<u>WHAT IS THE PRINCIPLES OF CSR?</u>

<u>THERE ARE 9 PRINCIPLES OF CSR</u>. Each Principles are interdependent, interrelated and non-divisible, and businesses are advised to address them broadly:

Principle 1	Businesses should conduct and govern themselves with integrity, and in a manner that is ethical, transparent, and accountable.
Principle 2	Businesses should provide goods and services in a manner that is sustainable and safe.
Principle 3	Businesses should respect and promote the well-being of all employees, including those in their value chains
Principle 4	Businesses should respect the interests of and be responsive to all its stakeholders
Principle 5	Businesses should respect and promote human rights.

Principle 6	Businesses should respect and make efforts to protect and restore the environment.
Principle 7	Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.
Principle 8	Businesses should promote inclusive growth and equitable development.
Principle 9	Businesses should engage with and provide value to their consumers in a responsible manner

PYRAMID OF CORPORATE SOCIAL RESPONSIBILITIES (ALSO KNOWN AS CAROLL'S CSR PYRAMID)



WHAT IS THE APPLICABILITY OF CSR?

Every company having:
➢ Net Worth of Rs.500 Crores or More
➢ Turnover of Rs.1000 Crores or More
➢ Not Profit of Rs.5 Crore or More (Net Profit Before Tax)

during the immediately preceding financial year shall establish a Corporate Social Responsibility Committee of the Board involving of three or more directors, out of which at least one director shall be an independent director.

Provided that where a company is not required to appoint an independent, it shall have in its Corporate Social Responsibility Committee two or more directors.

WHAT IS THE ROLE OF CORPORATE SOCIAL RESPONSIBILITY COMMITTEE?

(a) formulate and recommend to the Board, a Corporate Social Responsibility Policy,
(b) recommend the amount of expenditure to be incurred on the activities and
(c) monitor the Corporate Social Responsibility Policy of the company from time to time.

WHAT BOARD WILL DO?

The Board of every company shall —

(a) 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,

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

(c) Ensure that the company spends, in every financial year, at least 2% of the average net profits of the company made during the three immediately preceding financial years, where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years (Yet to be notified)

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

If a company contravenes the provisions shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees and every officer of such company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

WHAT IS NEW AS PER COMPANIES AMENDMENT ACT, 2019

❖ If the company fails to spend such amount, the Board shall, in its report made specify the reasons for not spending the amount and, unless the unspent amount relates to any ongoing project referred transfer such unspent amount to a Fund specified in Schedule VII (FOR EXAMPLE "PM RELIEF FUND", within a period of six months of the expiry of the financial year

- Any amount remaining unspent shall be transferred by the company within a period of thirty days from the end of the financial year to a special account to be opened by the company in that behalf for that financial year in any scheduled bank to be called the Unspent Corporate Social Responsibility Account, and such amount shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year.

SCHEDULE VII – LIST OF CSR ACTIVITIES COVERED

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

- Eradicating hunger, poverty and malnutrition
- Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects.
- Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
- Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry,

conservation of natural resources and maintaining quality of soil, air and water

- Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional art and handicrafts;
- Measures for the benefit of armed forces veterans, war widows and their dependents
- Training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports
- Contribution to the prime minister's national relief fund or any other fund set up by the central govt. for socio economic development
- Contribution to incubators funded by Central Government or State Government or any agency or Public Sector Undertaking of Central Government or State Government, and contributions to public funded Universities
- Rural development projects
- Slum area development
- Disaster management, including relief, rehabilitation and reconstruction activities (For Example COVID 19)

HOW THE CSR ACTIVITIES SHALL BE UNDERTAKEN BY THE COMPANY, AS PER ITS STATED CSR POLICY?

The Board of a company may decide to undertake its CSR activities approved by the CSR Committee, through

(a) a company established under section 8 of the Act or a registered trust or a registered society, established by the company, either singly or along with any other company, or

(b) a company established under section 8 of the Act or a registered trust or a registered society, established by the Central Government or State Government or any entity established under an Act of Parliament or a State legislature:

Provided that- if, the Board of a company decides to undertake its CSR activities through a company established under section 8 of the Act or a registered trust or a registered society, other than those specified in this sub-rule, such company or trust or society shall have an established track record of three years in undertaking similar programs or projects

(c) Company may also collaborate with other companies for undertaking projects or programs or CSR activities in such a manner that the CSR Committees of respective companies are in a position to report separately on such projects or programs in accordance with these rules.

(d) Companies may build CSR capacities of their own personnel as well as those of their Implementing agencies through Institutions with established track records of at least three financial years

FOLLOWING ACTIVITIES SHALL NOT BE CONSIDERED AS CSR ACTIVTIES:

- Contribution of any amount directly or indirectly to any political party shall not be considered as CSR activity.
- The CSR projects or programs or activities that benefit only the employees of the company and their families shall not be considered as CSR activities in accordance with section 135 of the Act.

CSR IN INSURANCE COMPANIES

CSR provisions are equally applicable to banking companies. IRDAI has issued revised guidelines on corporate governance for insurance companies.

- CSR Committee is required to be setup if insurance companies earn net profit of 5 Crore or more during preceding financial year
- Board shall ensure company spends not less than 2 percent of 3 years average net profit towards CSR activities
- Expenses should not be charged to policyholders account
- Expense should not be included for purpose of calculation of ceilings on expenses of Management under section 40B or 40C

CSR IN BANKING COMPANIES

Nationalized Banks are not incorporated as Company Under Companies Act,2013, Section 135 is not applicable.

- However, they are required to spend 1% of net profits through donations as specified by RBI.
- Loss making banks can make donations totalling up to Rs. 5 Lakh in a financial year
- Unutilized portion should not be carried forward
- Banks may continue to submit annual review of donations to their Boards of Director
- The donations out of research and development fund should normally be made for setting up professional chairs, granting scholarship for studies, research at universities for commissioning special projects for investigation and research for areas pertaining to banking, finance, management, economics etc.

YOU MAY REFER ICSI CSR FAQS BY CLICKING BELOW LINK: http://www.mca.gov.in/MinistryV2/faq+on+csr+cell.html