

# Cos face penalty for not meeting CSR spend target

## Law To Provide For 'Fit & Proper' Norms For Directors

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### New Delhi:

The government on Wednesday recommended several amendments to the Companies Act, including penalty on companies that do not meet the mandated 2% spending requirement towards corporate social responsibility (CSR) and “fit and proper” criteria for debarring directors from holding board positions.

The move is a fallout of the IL&FS scandal, where the government was forced to supersede the board and take control but realised that it can do little to bar the disqualified directors, including some top names of the corporate sector, from holding board positions as the new Companies Act did not provide for such as action.

As a result, it has decided to go back to the Companies Act 1956, which allowed the Centre to not just seek the removal of persons concerned with the management of a company and suspected of “fraud, misfeasance, persistent negligence or default in carrying out his obligations under the law or breach of trust”, but also bar them from being appointed board members for five years from the date of removal. Under the new law, the government will have to move an application before the National Company Law Tribunal, sources said.

Although the new rule is expected to be applied with prospective effect, it is unclear if a case can be made out against the IL&FS directors who were sacked.

Sources said the move to introduce a penalty on companies not meeting the CSR obligation was inserted as over 40% of the entities were not complying with the requirement, with close to a fifth not spending any money. “Companies have been given five years now. It is high time they start complying with the rules,” a source told **TOI**.

Companies with a net worth of Rs 500 crore or more, or turnover of over Rs 1,000 crore, or net profit of over Rs 5 crore have to spend at least 2% of the average net profit made during the three immediately preceding financial years on CSR activity. So far, they were only required to report it to shareholders. But the government has now decided to crack the whip.

Similarly, companies now have to disclose the details of significant beneficial ownership, an obligation that was so far cast on shareholders. The government saw it as a loophole and has sought to plug it. The rules mandate that details of all shareholders with interest of 10% or more in a company, either direct or indirect, have to be disclosed.

Further, the government has sought powers to mandate dematerialisation of shares for all category of companies, a move that was recently extended to public unlisted companies.

**47% COs DON'T SPEND ENOUGH ON CSR**