

What Should You Know about CSR in The Companies Law, 2012?

India has a long tradition of close business involvement in social causes for national development. In India, Corporate Social responsibility (CSR) is known from ancient time charity, which through different ages is changing its nature in broader aspect, now generally known as CSR. CSR has been a part of the Indian business since late 1800s. Most corporate houses have been operating with a social conscience that is an inherent part of their business strategies. With the changing national and global expectations, Indian companies are responding to the market expectations through responsible business practices, but CSR in India to some extent is philanthropy. It is still considered external to business, as opposed to an internal process. But now India is at an interesting threshold with the enactment of the Companies Bill 2012 has made CSR necessary for businesses to engage.

The Companies Bill 2012, after due discussions with stakeholders was cleared by the Indian Parliament on December 18, 2012. **The new law mandates 2% of profit after tax (PAT) of preceding three years to be spent on CSR activities.**

- **Who must comply?**

Every Company registered under the companies law or any previous laws (Section 1) If (Section-135):

- Net worth of rupees 500 crore or more
- Turnover of rupees 1000 crore or more
- Net profit of rupees 5 crore or more during any financial year

- **Who will be held accountable?**

- The company will constitute a Corporate Social Responsibility Committee of the board members consisting of three or more directors
- At least one committee member shall be an independent director

- **What will the CSR Committee do?**

- Formulate and recommend a CSR Policy and an indicative list of activities to the Board
- Recommend the amount of expenditure to be incurred on the activities
- Monitor the Corporate Social Responsibility Policy of the company from time to time.

- **What will be the role of the Board of Directors?**

- Review the recommendations made by the CSR Committee
- Approve the CSR Policy for the company

PIC of Mr Pilot

“The idea was to give it a structure, a shape, regularize it in a way that it becomes formatted. And, we are following a principle of self reporting. I am very confident because the private sector, the corporates — they themselves want to build bridges with the community. I also think it help them enhance their brand value and their presence in a very positive fashion. I am very confident that they want to come over and do it as long as there is absorptive capacity in the area to get the CSR done.” – Mr. Sachin Pilot, Minister of State for Corporate Affairs (I/C), GoI

- Disclose contents of the Policy in the company's report/website
- 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 CSR activities; Provided further that if the company fails to spend such amount, the Board shall, in its financial statement made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount i.e. the details about the policy developed and implemented by the company on corporate social responsibility initiatives taken during the year of sub-section (3) of section 134, specify the reasons for not spending the amount.
- **How much will a company be required to spend on CSR?**
 - Ensure that the company spends, in every financial year, at least 2% of its average net profit made during the three immediately preceding financial years
- **What are the activities your company can undertake?**

According to Schedule VII, Activities – as a Project Mode, which may be included by companies in their Corporate Social Responsibility Policies, are:

- Eradicating hunger and poverty
- Promotion of education
- Promoting gender equality and empowering women
- Health - reducing child mortality, improving maternal health, combating HIV, AIDS, malaria
- Employment enhancing vocational skills
- Contribution to PM's 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
- Ensuring environmental sustainability
- Social business projects
- Such other matters as may be prescribed.
- **What does a company need to disclose in the Annual Report?**
 - CSR policy, initiatives and the CSR committee
 - Amount of expenditure incurred on corporate social responsibility activities
 - Valid reasons in case of failure to spend the earmarked CSR budget
- **What if the company contravenes the provisions of clause 135?**
 - If a company contravenes the provisions of clause 135, shall be punishable with fine which shall not be less than 50 thousand rupees but which may extend to 25 lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to 3 years or with fine which shall not be less than 50 thousand rupees but which may extend to 5 lakh rupees, or with both under Sub Section (8) of Section 134.



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