

## **Amendments to Companies Act**

### **Why in news?**

Finance and corporate affairs minister Nirmala Sitharaman announced that the government was moving to decriminalise provisions of the Companies Act.

### **What are the recent changes?**

- The move, which was initially announced on March 4, 2020, is part of a larger effort by the government since 2018.
- A number of offences previously classified as compoundable offences (with imprisonment or fines) have had the imprisonment penalty removed.
- The number of compoundable offences under the Companies Act has come down to 31 from 81 prior to the 2018 amendment to the Act.
- Some of these offences have been omitted altogether.
- Others have been shifted from the purview of the National Company Law Tribunals (NCLT) to being dealt with by Registrar of Companies (RoC).
- The RoC is empowered to decide penalties for these offences.
- The companies can appeal to the Regional Director (RD) of the Ministry of Corporate Affairs (MCA) to appeal or seek modifications.
- The recently decriminalised offences include administrative offences such as
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  - i. delays in filing CSR reports (or)
  - ii. failure to rectify the register of members in compliance with orders from the NCLT
- The changes also made violations of the Corporate Social Responsibility (CSR) provisions punishable by imprisonment.
- But it did not operationalise the provision after feedback from industry.
- The Companies Act amendment bill 2020 has also proposed to remove criminal liability from CSR provisions.

### **What is the rationale?**

- With the overhaul of Companies Act in 2014, a lot more regulations were introduced for better corporate compliance.
- So, a number of penal provisions with both civil and criminal penalties were introduced.
- Now, as compliance levels improved and there is also the need to boost ease

of doing business, the government is relaxing the criminal provisions.

- The key objective is to remove criminal penalties from all provisions of the Companies Act, except provisions dealing with fraudulent conduct.
- Currently, the changes are aimed at enhancing ease of doing business in the country as part of the government's Covid-19 relief package.

### **What are the next steps?**

- The ministry is expected to make further measures to decriminalise provisions in the companies act particularly those relating to auditors.
- There was an issue with auditors being considered to be colluding with management if any fraud was found.
- The MCA had announced that it would move towards removing criminal liability for issues such as negligence by auditors.
- The easing of provisions of debarment of audit firms is also expected to be taken up in the next phase of decriminalisation of the Companies Act.
- The ministry is however currently in the process of seeking debarment of audit firms Deloitte as well as KPMG affiliate firm BSR & Co. for their alleged role in the [IL&FS](#) scam.

**Source: Indian Express**

