Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021

Why in news?

The Ministry of Corporate Affairs has published The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 to further amend the Companies (CSR Policy) Rules, 2014.

What is CSR?

- CSR is a corporate initiative to assess and take responsibility for the company's effects on the environment and impact on social welfare.
- CSR projects are taken up to promote positive social and environmental change.
- Currently, the CSR rules apply to the companies with any of the following criteria:
  i. a net worth of Rs 500 crore or more
  ii. a turnover of Rs 1,000 crore or more
  iii. net profit of Rs 5 crore or more
- These companies are required to spend 2% of their average profits of the previous 3 years on CSR activities every year.

What are the key changes?

- **Registration** - The Amendment substitutes Rule 4 which implements CSR in the companies.
- Every entity, which intends to undertake any CSR activity, shall register itself with the Central Government.
- This is to be done by filing the form CSR-1 electronically with the Registrar, with effect from the 1st day of April 2021.
- The provisions of this sub-rule shall not affect the CSR projects or programmes approved prior to the 1st day of April 2021.
- Form CSR-1 shall be signed and submitted electronically by the entity.
- It shall be verified digitally by a Chartered Accountant in practice or a Company Secretary in practice or a Cost Accountant in practice.
- **Action plan** - Under Rule 5, the CSR Committee shall formulate and recommend to the Board, an annual action plan in pursuance of its CSR policy.

- This shall include the following, namely:
    1. the list of CSR projects or programmes that are approved to be undertaken in areas or subjects specified in Schedule VII of the Act
    2. the manner of execution of such projects or programmes
- **Impact assessment** - Under Rule 8, any corporation with a CSR obligation of Rs 10 crore or more for the 3 preceding financial years would be required to hire an independent agency.
- This is to conduct impact assessment of all of their project with outlays of Rs 1 crore or more.
- Companies will be allowed to count 5% of the CSR expenditure for the year up to Rs 50 lakh on impact assessment towards CSR expenditure.
- **Transparency** - Under rule 9, the Board of Directors of the Company shall mandatorily disclose the composition of the CSR Committee.
- The CSR Policy and Projects approved by the Board should also be disclosed on their website, if any, for public access.

What are the changes required for implementing agencies?

- A large number of companies conduct CSR expenditure through implementing agencies.
- But the new amendment mandates that the companies authorise either a Section 8 company or a registered public charitable trust to conduct CSR projects on their behalf.

  - A Section 8 company is a company –
    1. that is registered with the purpose of promoting charitable causes
    2. that applies profits to promoting its objectives
    3. that is prohibited from distributing dividends to shareholders

- Further, all such entities will have to be registered with the government by 1 April 2021.

What is the likely impact?

- It is felt that the change would impact CSR programmes of a number of large Indian companies that conduct projects through private trusts.
- A sizeable amount of CSR is being contributed through their private trusts by many companies, including blue-chip companies.
- So, the change would mean such private trusts would either have to be converted to registered public trusts, or stop acting as CSR implementing agencies.
- Private trusts such as the Reliance Foundation, Bharti Foundation and DLF Foundation, which handle a majority of CSR expenditure for affiliated companies, would be impacted by this change.

Source: The Indian Express

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