

# 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:
  - i. the list of CSR projects or programmes that are approved to be undertaken in areas or subjects specified in Schedule VII of the Act
  - ii. 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 -
  - ${\it i.}$  that is registered with the purpose of promoting charitable causes
  - ii. that applies profits to promoting its objectives
  - ${\it iii.}$  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**

