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Corporate Update

Corporate Social Responsibility

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Corporate Social Responsibility

Corporate social responsibility (“**CSR**”), a new initiative under the Companies Act 2013 (“**CA13**”), is the process by which an organization thinks about and evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies.

- CA13 requires that every Company having net worth of Rs. 500,00,00,000/- (Rupees Five Hundred Crore) or more, or turnover of Rs. 1000,00,00,000/- (Rupees One Thousand Crore) or more, or net profit of Rs. 5,00,00,000/- (Rupees Five Crore) or more, during any financial year, shall constitute a CSR Committee of 3 (three) or more directors, 1 (one) of which has to be an independent director, and the composition of such committee is required to be included in the Board’s report.
- The CSR Committee will be required to formulate and recommend to the Board, and monitor, a CSR policy, including activities relating to: (i) eradicating extreme hunger and poverty; (ii) promotion of education; (iii) promoting gender equality and empowering women; (iv) reducing child mortality and improving maternal health; (v) combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases; (vi) ensuring environmental sustainability; (vii) employment enhancing vocational skills; (viii) social business projects; (ix) contribution to the Prime Minister’s National Relief 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; and (x) such other matters as may be prescribed and recommend expenditure to be incurred; the contents of the report have to be disclosed on the company’s website.

Recommended by:



- 2% (two percent) of a company's average net profits (computed as 2% of the average net profits made by the company during every block of 3 years) will need to be used for CSR every financial year, and if not, the Board must specify in its report the reasons for not spending such amount.
- CSR policy must specify that the corpus would include (a) 2% (two percent) of the average net profits as aforesaid, (b) any income arising there from, and (c) surplus arising out of CSR activities. The policy should additionally provide that surplus arising out of the CSR activity will not be part of business profits of a company.
- Where a company has set up an organization which is registered as a trust or a Section 8 company (erstwhile Section 25 company), or society or foundation or any other form of entity operating within India to facilitate implementation of its CSR activities in accordance with its stated CSR Policy, the following shall apply: (a) the contributing company would need to specify the projects/programmes to be undertaken by such an organization, for utilizing funds provided by it, and (b) the contributing company shall establish a monitoring mechanism to ensure that the allocation is spent for the intended purpose only.
- A company may also conduct/implement its CSR programmes through trusts, societies, or Section 8 companies operating in India, which are not set up by the company itself.
- Spends on such not for profit organizations may be included as part of the company's prescribed CSR spends, only if such organizations have an established track record of at least 3 (three) years in carrying on activities in related areas.
- Companies may alternatively collaborate or pool resources with other companies to undertake CSR activities and any expenditure incurred on such collaborative efforts would qualify for computing the CSR spending.
- Preference shall be given to local area and areas around which it operates.
- Only activities which are not exclusively for the benefit of employees of the company or their family members shall be considered as CSR activity.
- Only such CSR activities will be taken into consideration as are undertaken within India.

Details of the CSR activities will need to be specified in the Board's report as well as on the website of the company. Many Indian corporate are already involved in voluntary CSR activities but the mandatory nature of the CSR activities now introduced by CA13 intends to expand the scope and reach of these activities to deserving socio-economic causes and projects.

	Feedback
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