

Update on mandatory CSR spending as per “The Companies Bill, 2012”



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



“The idea was to give it a structure, a shape, regularize it in a way that it becomes formatted. 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 helps 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), Govt of India

WHAT SHOULD YOU KNOW ABOUT CSR IN THE COMPANIES BILL, 2012?

Who must comply?

- o 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?

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

What will the CSR Committee do?

- o Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII
- o Recommend the amount of expenditure to be incurred on the activities
- o Monitor the Corporate Social Responsibility Policy of the company from time to time

What will be the role of the Board of Directors?

- o Review the recommendations made by the CSR Committee
- o Approve the CSR Policy for the company
- o Disclose contents of the Policy in the company's report/website
- o 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?

- o 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?

- o According to Schedule VII, Activities – as a Project Mode, which may be included by companies in their Corporate Social Responsibility Policies are:
 1. Eradicating hunger and poverty
 2. Promotion of education
 3. Promoting gender equality and empowering women
 4. Health - reducing child mortality, improving maternal health, combating HIV, AIDS, malaria
 5. Employment enhancing vocational skills
 6. 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
 7. Ensuring environmental sustainability
 8. Social business projects
 9. Such other matters as may be prescribed.

What does a company need to disclose in the Annual Report?

- o The Boards financial report under sub-section (3) of section 134, shall disclose the composition of CSR committee, CSR policy and initiatives
- o Amount of expenditure incurred on Corporate Social Responsibility activities
- o Valid reasons in case of failure to spend the earmarked CSR budget



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