



CSR: Companies Act 2013

March 10, 2014





Notification of Rules for implementation of Sec 135 of the Companies Act 2013

- Cover mandatory CSR obligations for companies – domestic as well as foreign companies' project offices and branch offices
- Act will take effect from April 1, 2014

Eligibility criteria:

- **Net profit** of at least **INR 5 cr** for FY 2014-15 or,
- **Net worth** of at least **INR 500 cr** for FY 2014-15 or,
- **Turnover** of a minimum of **INR 1,000 cr** for FY 2014-15

Eligible companies must:

- Constitute a board-level **Corporate Social Responsibility Committee**
- Establish a **CSR Policy** – lay down activities and modalities of execution
- Get **board approval** for policy, **disclose the policy** on website/Directors' Report
- Spend at least **2% of avg net profit** (of past three years) on activities mentioned in Schedule VII
- **Report on CSR activities** at year end as per the CSR Reporting framework



Governance structure

Board of Directors

- Form a CSR Committee, approve CSR policy
- Ensure CSR policy is implemented and provide required disclosures

CSR Committee

- Min. two/three directors, with at least one Independent Director for listed public limited companies
- Independent director not mandatory for unlisted/private company
- Formulate CSR Policy, design CSR activities, propose budgets and recommend to the Board
- Design monitoring mechanism for the activities and the policy
- Ensure monitoring of the CSR programs/projects

CSR Policy

The Policy must be:

- Prepared by the CSR Committee
- Recommended by the CSR Committee to the Board of Directors
- Approved by the Board before it is implemented
- Posted on the website of the company

CSR Policy document must consist of:

- **List of CSR projects/programs** which a company plans to undertake. This must align with Schedule VII of the Act
- **Modalities of execution** of such project/programs and their implementation schedules
- **Specification that the surplus** arising out of the CSR projects/programs/activities shall not be a part of the business profit



Poverty

- Eradicating **hunger, poverty and malnutrition**, promoting **preventive healthcare** and **sanitation** and making available **safe drinking water**



Education

- Promoting education, including **special education** and **employment enhancing vocational skills** especially among children, women, elderly and the differently-abled and livelihood enhancement projects



Reducing inequality

- Promoting **gender equality**, empowering women, setting up **homes and hostels for women and orphans**, setting up **old age homes, day care centers** and such other facilities for **senior citizens** and measures for **reducing inequalities** faced by socially and economically backward groups



Environment

- Ensuring **environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro forestry**, conservation of natural resources and **maintain quality of soil, air and water**



Art and Culture

- Protection of **national heritage, art and culture** including **restoration** of buildings and sites of **historical importance** and **works of art**, setting up **public libraries**, promotion and development of **traditional arts and handicrafts**



Armed Forces Veterans

- Measures for the **benefit of armed forces veterans, war widows** and their **dependents**



Sports

- Training to promote **rural sports, nationally recognized sports, Paralympics sports** and **Olympic sports**



Technology incubation

- Contribution of funds provided to **technology incubators located within academic institutions** which are approved by the Central Government



Rural development projects

- Impactful rural development programs/ projects



Contribution to government-managed funds

- **The Prime Minister's National Relief Fund**
- **Any other fund set up by Central Government for socio economic development and relief of the scheduled castes, scheduled tribes, other backward classes, minorities and women**

CSR project/program guidelines



All activities must be undertaken as a part of a program/ project aligned with CSR policy

No restriction on the demographic profile of the beneficiaries

- Can focus on a variety of beneficiary groups



Communities around the company's operations

- Highly preferred



CSR activities can be **revenue generating**

- But that revenue cannot be counted as part of the business profit



Donation to political parties

- Not allowed



Amount spent on **communities outside India**

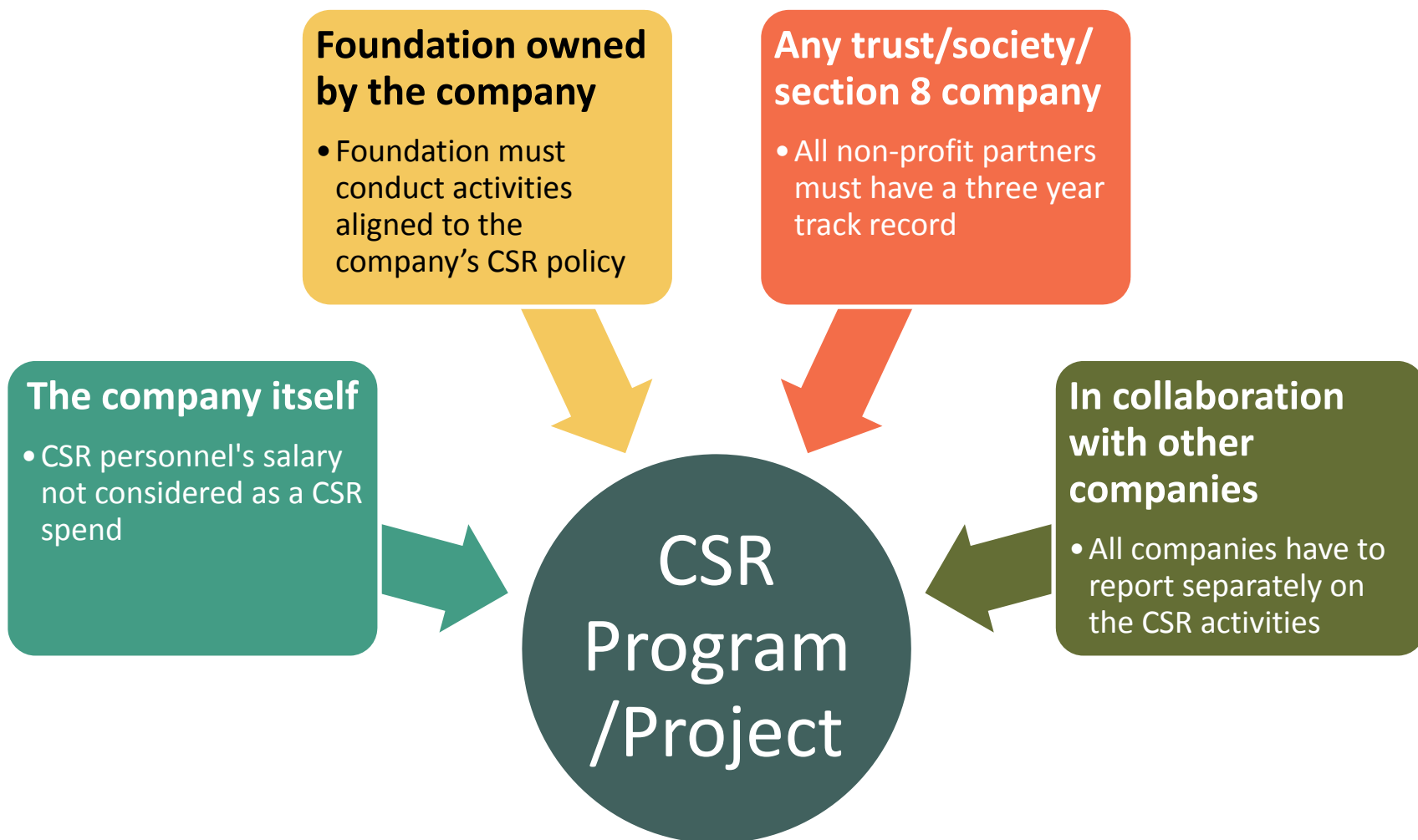
- Not allowed



CSR activities for the exclusive benefit of employees, their families and contract workers

- Not allowed






CSR reporting



• If the prescribed CSR spend is not met, **explanation** to be provided in director's report.

• **Failure to report** on CSR policy and initiatives in director's report, to **invite fine and/or imprisonment.** 

CSR Reporting Format



Amount spent during the financial year on CSR activities should be reported in the format below

Sr. no.	CSR project or activity identified	Sector in which the project is covered	Project or programs: <ul style="list-style-type: none"> •Local area or other •Specify the state and district where projects or programs were undertaken 	Amount outlay (budget) – project or program wise	Amount spent on the projects or programs Sub heads: <ul style="list-style-type: none"> • Direct expenditure • Overhead expenditure 	Cumulative expenditure up to the reporting period	Amount spent : directly or through implementing agency
1							
2							
TOTAL							

Ambiguities and grey areas



Ambiguities

Gray Areas

Ambiguity / gray area	Reference within CSR Rules
Does the CSR Committee and the Board of Directors have the flexibility in choosing CSR activities beyond Schedule VII?	2 (c) (i) and (ii)
Computation of net profit for domestic and foreign companies	2 (f) (i) and (ii)
The activities 'undertaken in pursuance of normal course of business of a company' are excluded from the 'CSR activities'. What are the examples of such activities?	2 (e)
CSR expenditure' includes contribution to corpus but it can be carried-forward (which in some cases may exceed the prescribed CSR expenditure in a year)	7
A cap of 5% of annual CSR expenditure for capacity building of personnel/ implementing agencies by intermediaries has been set. Which activities does it cover in particular?	4
Expenses on employees engaged exclusively on CSR be covered? Will employee volunteering be covered?	Not covered
What activities can be undertaken under the banner of 'preventive healthcare'?	Not covered
What is the deadline for formulating and finalizing CSR policy?	Not Covered

THANK YOU



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