



# CSR rules in the Companies Act 2013



## 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 came into effect from April 1, 2014

### Eligibility criteria:

- **Crossing any of the following 3 thresholds for any of the three financial years preceding the current financial year:**
  - **Net profit** of at least **INR 5 cr** or,
  - **Net worth** of at least **INR 500 cr** or,
  - **Turnover** of a minimum of **INR 1,000 cr**

### 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** (as defined in Section 198, close to PBT) 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 and CSR policy

## 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



# CSR activities: Schedule VII to the Act

The latest circulation from MCA, dated June 18, 2014, states that the entries in Schedule VII must be interpreted 'liberally' to capture the essence of the causes mentioned below



## Poverty

- Eradicating **hunger, poverty and malnutrition, promoting healthcare** including **preventive healthcare** and **sanitation** and making available **safe drinking water**
- **Companies in the financial sector**



## 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**



# CSR activities: Schedule VII to the Act



## 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 and/or those not located within academic institutions (provided they are approved by the Department of Science & Technology)



## Rural development projects

- Any project meant for development of rural India



# CSR activities: Schedule VII to the Act



## 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



Employees' salaries and monetary value of employee volunteering

- Can be considered as CSR



Donation to political parties, capacity development of govt. officials/elected representatives

- 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



One-off events such as marathons and charitable contributions

- Not allowed



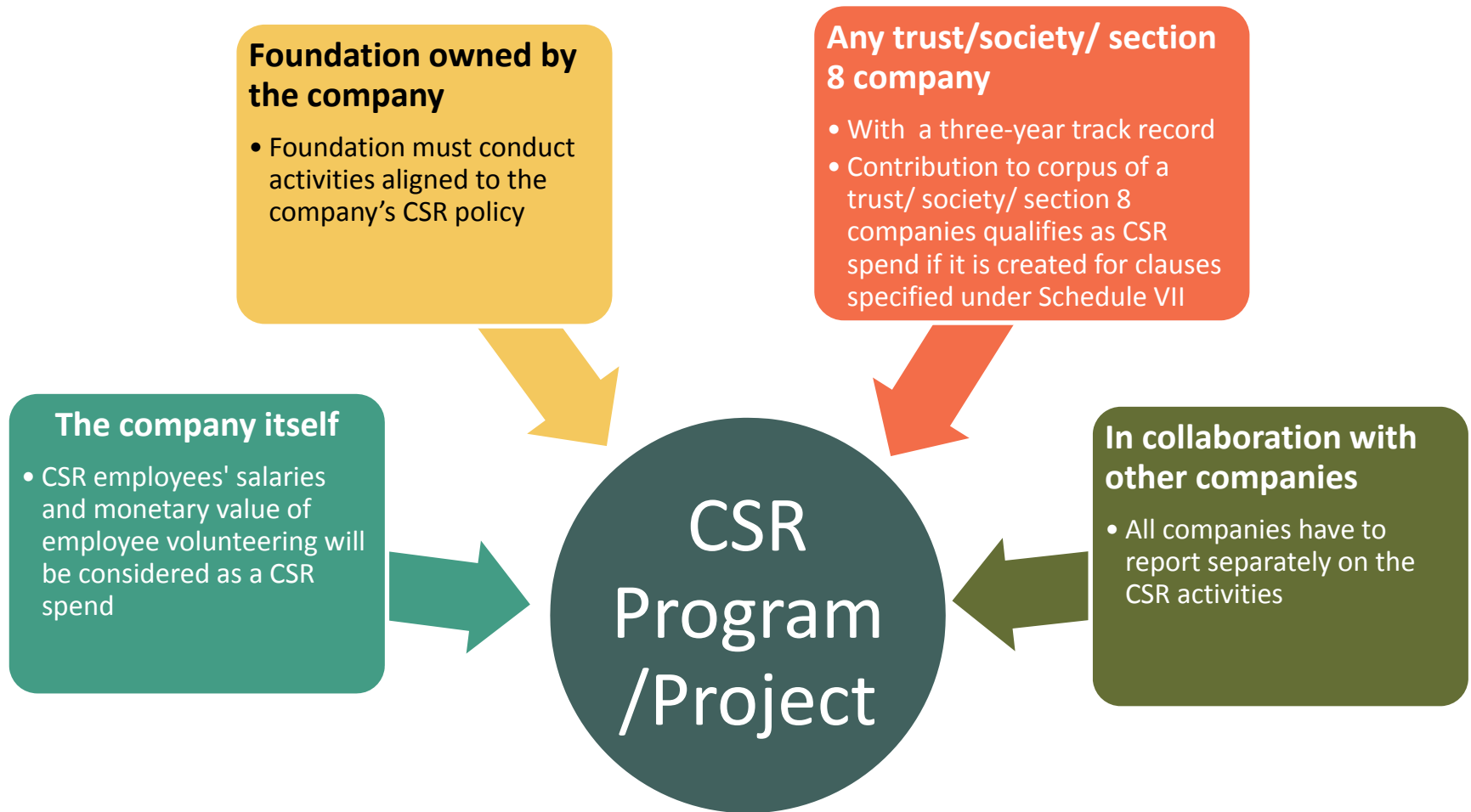
Sustainable urban development and urban transport systems

- Not allowed





# Implementation partners





# CSR reporting



1.
  - Brief outline of the company's CSR policy with web link
  - Proposed programs
2.
  - Composition of CSR Committee
3.
  - Average net profit of the company for last three financial years
4.
  - Prescribed and proposed CSR Expenditure
  - Amount unspent
5.
  - If CSR budget is unspent, mention the reasons in Director's report
6.
  - A responsibility statement of the CSR Committee

• 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"> <li>•Local area or other</li> <li>•Specify the state and district where projects or programs were undertaken</li> </ul>	Amount outlay (budget) – project or program wise	Amount spent on the projects or programs Sub heads: <ul style="list-style-type: none"> <li>• Direct expenditure</li> <li>• Overhead expenditure</li> </ul>	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
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
What is the deadline for formulating and finalizing CSR policy?	Not Covered

# THANK YOU



B-305, Cello Triumph, I.B. Patel Road,  
Goregaon East, Mumbai - 400 063

[www.samhita.org](http://www.samhita.org)

For CSR queries

Phone: +91 88795 34777

Email: [csr@samhita.org](mailto:csr@samhita.org)

For NGO queries

Phone: +91 88795 34777

Email: [ngosupport@samhita.org](mailto:ngosupport@samhita.org)

For general queries

Phone: +91 22 2685 7800

Email: [info@samhita.org](mailto:info@samhita.org)