

Companies Act 2013: a much awaited legislation

After years of debate, the Indian Parliament passed its first major change of the country's corporate law in more than 50 years, which includes several important provisions that modernize India's corporate governance rules.

The 2013 Act is divided into 29 chapters containing 470 clauses as against 658 clauses of the earlier Companies Act, 1956 and has 7 schedules. The Act has replaced the Companies Act, 1956 after receiving the assent of the President of India on 29 August 2013. The Act came into force on 12 September 2013 with only certain provisions of the Act notified. Notifications of the other sections are taking place & should be completed soon.

Major changes are as under:

1. **Corporate Social Responsibility:** The new Act stipulates certain classes of Companies to spend 2% of the Net Profit every year on activities/initiatives reflecting Corporate Social Responsibility.
2. **One Person Company:** The Companies Act 2013 has introduced a new corporate entity- one person company that may have only one director and one shareholder. The old Act required a minimum of two shareholders and two directors in the case of a private company.
3. **Increase in number of Shareholders:** The new Act has increased the number of maximum shareholders in a private company from 50 to 200.
4. **Resident Director:** Every company shall have at least one director who has stayed in India for a total period of not less than 182 (one hundred and eighty two) days in the previous calendar year.
5. **Independent Directors:** The new Act provides that all listed companies should have at least one-third of their Board members as independent directors.
6. **Lady Directors:** The Companies Act 2013 stipulates that certain classes of Companies should have at least one lady Director on their Board.
7. **Rotation of Auditors:** The new Act provides for rotation of auditors and audit firms in case of publicly traded companies
8. **Democracy of Shareholders:** The new Act has introduced new concept of class action suits with a view of making shareholders and other stakeholders, more informed and knowledgeable about their rights.
9. **National Company Law Tribunal:** The National Company Law Tribunal and the National Company Law Appellate Tribunal will replace the Company Law Board and Board for Industrial and Financial Reconstruction. They would relieve the Courts of their burden while simultaneously providing specialized justice.
10. **Fast Track Mergers:** The new Act proposes a fast track and simplified procedure for mergers and amalgamations of certain class of companies such as holding and subsidiary, and small companies after obtaining approval of the Indian government.
11. **Cross Border Mergers:** The Companies Act 2013 permits cross border mergers, a foreign company merging with an Indian Company and vice versa but requires prior permission of Reserve Bank of India.
12. **Financial Year:** Every company's financial year will be the period ending on 31 March every year.