

Indian Companies Act

The Companies (Amendment) Bill 2019 was passed by the Lok Sabha recently. It introduced some changes to the Indian Companies Act 2013. In this article, you can read the salient features of the Companies Act 2013 and its comparison with the older Companies Act 1956, for the [IAS exam](#).

Companies Act 2013

The Companies Act 2013 regulates the formation and functioning of corporations or companies in India. The first Companies Act after independence was passed in 1956, which governed business entities in the country. The 1956 Act was based on the recommendations of the Bhabha Committee. This Act was amended multiple times, and in 2013, major changes were introduced. By Section 135 of the 2013 Act, India became the first country to make corporate social responsibility (CSR) spending mandatory by law.

Currently, the Ministry of Corporate Affairs is administering the following Central government Acts:

1. Companies Act 2013
2. Companies Act 1956 (some provisions of this Act still apply)
3. Competition Act 2002
4. [Insolvency & Bankruptcy Code, 2016](#)
5. Chartered Accountant Act 1949

The Companies Act 2013 has replaced the 1956 Act.

Comparison of Companies Act 2013 and Companies Act 1956

Detail	Companies Act 1956	Companies Act 2013
Parts	13	NA
Chapters	26	29
Sections	658	470
Schedules	15	7

Companies Act 2013 Highlights

The major highlights of the 2013 Act are given below:

- The maximum number of shareholders for a private company is 200 (the previous cap was at 50).
- The concept of a one-person company.
- Company Law Appellate Tribunal & Company Law Tribunal
- CSR made mandatory

Salient Features of the Companies Act 2013

- It has introduced the concept of 'Dormant Companies'. Dormant companies are those that have not engaged in business for two years consecutively.
- It introduced the [National Company Law Tribunal](#). It is a quasi-judicial body in India adjudicating issues concerning companies. It replaced the Company Law Board.
- It provides for self-regulation with respect to disclosures and transparency rather than having a government-approval based regime.

- Documents have to be maintained in electronic form.
- Official liquidators have adjudicatory powers for companies having net assets of up to Rs.1 crore.
- The procedure for mergers and amalgamations have been made faster and simpler.
- Cross-border mergers are allowed by this Act (foreign company merging with Indian company and reverse) but with the permission of the [Reserve Bank of India](#).
- The concept of a one-person company has been introduced. This is a new type of private company which may have only one director and one shareholder. The 1956 Act required at least two directors and two shareholders for a private company.
- Having independent directors has been made a statutory requirement for public companies.
- For a prescribed class of companies, women directors are mandatory.
- All companies should have at least one director who has been a resident of India for not less than 182 years in the last calendar year.
- The Act provides for entrenchment (apply extra legal safeguards) of the articles of association.
- The Act mandates at least 7 days of notice for calling board meetings.
- In this Act, the duties of a Director has been defined. It has also defined the duties of 'Key Managerial Personnel' and 'Promoter'.
- For public companies, there should be a rotation of audit firms and auditors. The Act also prevents auditors from performing non-audit services to the company. In case of non-compliance, there is substantial criminal and civil liability for an auditor.
- The whole process of rehabilitation and liquidation of the companies in the case of financial crisis has been made time-bound.
- The Act makes it mandatory for companies to form CSR committees, and formulate CSR policies. For certain companies, mandatory disclosures have been made with regard to CSR.
- Listed companies ought to have one director to represent small shareholders as well.
- There is provision for search and seizure of documents, during investigation, without an order from a magistrate.
- Norms have been made stringent for accepting deposits from the public.
- Setting up of the National Financial Reporting Authority (NFRA) has been provided for. It engages in the establishment and enforcement of accounting and auditing standards and oversight of the work of auditors.(Due to notification of NFRA, India is now eligible for membership of the International Forum of Independent Audit Regulators (IFIAR).)
- The Act bans key managerial personnel and directors from purchasing call and put options of shares of the company, if such person is reasonably expected to have access to price-sensitive information.
- The Act offers more power to shareholders in that it provides for shareholders' approval for many major transactions.

Companies (Amendment) Bill, 2019

This Act was passed by the Parliament in July 2019. The changes recommended under the latest amendment to the Companies Act are as follows:

- Companies will have to keep an unspent amount into a special account for the purpose of CSR.
- This amount, if left unspent after a period of 3 years, will be moved into a fund specified in Schedule VII of the Act. This could even be the Prime Minister's Relief Fund.
- Under this Act, the Registrar of Companies can initiate action for the removal of the company's name from the Register of Companies if it is not conducting business or operation as per the Company Law.
- 16 minor offences mentioned in the Act have been decriminalised (made civil defaults).

UPSC Questions related to Indian Companies Act

Is Companies Act 1956 still applicable?

Some sections of the 1956 Act are still applicable.

What is Company as per Companies Act 1956?

Companies Act 1956 defines a company as 'a company formed and registered under this Act or an existing Company'. Existing Company is one that has been formed under the earlier company laws.

What are types of companies in India?

There are various types of business entities in India. They are:

- Private limited company
- Unlimited company
- Public limited company
- Sole proprietorship
- Partnership
- Joint Hindu family business
- Cooperatives
- Limited liability partnerships

What is unlimited company India?

An unlimited company is a private company which can be incorporated without a share capital. But, the liability of the members of the shareholders is not limited. That means, in case of the company's liquidation, the shareholders have a joint, several and unlimited obligation to meet the company's debts. This is unlike a limited company wherein shareholders have no direct liability to the creditors, and they have to take recourse only to the company's assets and their own personal assets.