

PAPER 13- CORPORATE LAWS & COMPLIANCE

Paper-13: CORPORATE LAWS AND COMPLIANCE

Full Marks: 100

Time Allowed: 3 Hours

Answer Question No. 1 which is compulsory carries 20 marks and answer any 5 Question from Q. No 2 to Q. No. 8.

1. Answer all questions mentioned below: [10x2=20]
Mark the correct answer and state with justification:
- A. Every listed Public Company shall have 'Independent Directors' of at least
- (i) 1/3 rd of the total number of Directors
 - (ii) 2/3 rd of the total number of Directors
 - (iii) 1/4 th of the total number of Directors
 - (iv) 2/4 th of the total number of Directors
- B. Export under Foreign Exchange Management Act, 1999 means:
- (i) the taking out of India to a place outside India any goods.
 - (ii) provision of services from India to any person outside India.
 - (iii) both the above
 - (iv) none of the above
- C. Unless the Articles require a larger number of members, Quorum of a General Meeting of a Producer Company shall be
- (i) 5 members
 - (ii) one third of total membership
 - (iii) one-fourth of total membership
 - (iv) half of total membership
- D. Unfair competition under the Competition Act, 2002 means adoption of practices like
- (i) collusive price fixing
 - (ii) allocation of markets
 - (iii) discriminatory pricing
 - (iv) all the above
- E. Every company shall hold the first meeting of the Board of Directors within how many day's of the date of incorporation:
- (i) 15 day's
 - (ii) 30 day's
 - (iii) 45 day's
 - (iv) 60 day's
- F. Any person aggrieved by any order of Appellate Tribunal may file an appeal to the Hon'ble Supreme Court within how many days; from the date of receipt of the order of Appellate Tribunal
- (i) 30 days
 - (ii) 60 days
 - (iii) 90 days
 - (iv) 120 days
- G. The Insolvency and Bankruptcy Code, 2016, does not cover
- (i) Financial Institutions,
 - (ii) Insurance Company,
 - (iii) Mutual Funds & Pension Funds.
 - (iv) None of the above
 - (v) All the above

- H. The Companies Act, 2013 specified 'Small Shareholder' as a shareholder holding shares of nominal value of not more than:
- (i) ₹ 15,000
 - (ii) ₹ 20,000
 - (iii) ₹ 25,000
 - (iv) ₹ 30,000
- I. No banking company shall create any charge upon its
- (i) Paid up capital
 - (ii) Unpaid capital,
 - (iii) Only (i) above
 - (iv) Only (ii) above
- J. SEBI specified Listing pursuant to public issue as:
- (i) Minimum application size ₹1 million
 - (ii) Number of allottees shall be more than 200
 - (iii) Both the above
 - (iv) None of the above

Answer:

1. (A) (i)
Justification: Under Section 149(4) of the Companies Act, 2013 it has been stated that every listed public company shall have at least 1/3 rd of the total number of directors as independent directors, hence answer is (i).
- (B) (i)
Justification: Under Section 2(l) of FEMA, 1999 'export', with its grammatical variations and cognate expressions, means both (i) the taking out of India to a place outside India any goods, hence answer is (i).
- (C) (iii)
Justification: ¼ th membership. (Sec 581 Y), hence answer is (iii).
- (D) (iv)
Justification: The competition Act, 2002, has specified all of the practices mentioned here, as anti-competitive practices, to be treated under "Unfair Competition", hence answer is (iv).
- (E) (ii)
Justification: Section 173 of The Companies Act, 2013 states that every company shall hold the first meeting of the Board of Directors within 30 days of the date of its incorporation, hence answer is (ii).
- (F) (ii)
Justification: 60 days. Sec. 423. However, If the Supreme Court seems that further time should be allowed, then the Supreme Court may allow further time of not more than 60 days, hence, answer is(ii).
- (G) (iv)
Justification: The Insolvency and Bankruptcy Code, 2016 does not cover Financial Institutions, Insurance Company, Mutual Funds, Pension Funds etc., hence, answer is (iv).
- (H) (ii)
Justification: According to Section 151 of the Companies Act,2013, 'small shareholder' means a shareholder holding shares of nominal value of not more than 20,000 or such other sum as may be prescribed, hence, answer is (ii).

(I) (ii)

Justification: According to Section 14 of The Banking Regulation Act, 1949, no banking company shall create any charge upon its unpaid capital, and any such charge if created, shall be invalid, hence, answer is (ii).

(J) (iii)

Justification: As per SEBI Issue of Capital and Disclosure Requirements Regulations, 2009, both the conditions will apply for listing pursuant to public issue, hence, answer is (iii).

(2) (a) On recommendation of the Board of Directors of Joy Company Ltd, Mr Rajeev is appointed at the company's annual general meeting held on 01-Oct-2015 as the company's auditor for a period of 10 years. A resolution to this effect was passed unanimously with no vote against the resolution. Explain the provisions of the companies act, 2014 relating to the appointment and re-appointment of auditors:

(i) Examine the validity of the above resolution

(ii) What shall be your answer in case an audit firm R & Associate is appointed as the company's auditor.

(b) State the objectives of the Insolvency and Bankruptcy Code, 2016

(8+8)

Answer:

2. **(a)** Appointment of Auditor [Section 139 of the Companies Act, 2013 and the Companies (Audit and Auditors) Rules, 2014]:

Section 139(2) of the Companies Act, 2013, provides that listed companies and other prescribed class or classes of companies (except one person companies and small companies) shall not appoint or re-appoint:

- (i) An individual as auditor for more than one term of five consecutive years; and
- (ii) An audit firm as auditor for more than two terms of five consecutive years.

The Companies (Audit and Auditors) Rules, 2014 has prescribed the following classes of companies for the purposes of section 139(2):

- (1) All unlisted public companies having paid up share capital of rupees 10 crore or more;
- (2) All private limited companies having paid up share capital of rupees 20 crore or more;
- (3) All companies having paid up share capital of below threshold limit mentioned in (1) and (2) above, but having public borrowings from financial institutions, banks or public deposits of rupees 50 crores or more.

(i) In the above question, on recommendation of the Board of Directors of Joy Company Limited, Mr. Rajeev is appointed at the company's Annual General Meeting held on 1st October, 2015 as the company's auditor for a period of 10 years. As per the above provisions of the Companies Act, 2014, the appointment of Mr. Rajeev as auditor of the company for 10 years is not valid because an individual shall not be appointed as auditor for more than one term of five consecutive years. The said resolution is not valid.

Note: [As the question does not specify the status of the company whether listed or unlisted; amount of paid up share capital, public borrowings from financial institutions, banks or public deposits are not known; it is assumed that Joy Company Limited is a listed company or within the prescribed classes of companies specified under the above said Rules].

(ii) An audit firm can be appointed as an auditor for two terms of five consecutive years. This means that a firm can be appointed for five years and thereafter may be appointed/ reappointed for further five years. The total period for which a firm can be appointed is 10 years. A firm cannot be appointed as auditor for ten years by single resolution. Thus, the appointment of R & Associate as the company's auditor for ten years a single resolution is not valid.

- (b)** (a) Consolidate the laws relating to insolvency, reorganisation and liquidation/ bankruptcy of all persons, including companies, individuals, partnership firms and limited liability partnerships ('LLPs') under one statutory umbrella and amending relevant laws.
- (b) Time bound resolution of defaults and seamless implementation of liquidation / bankruptcy and maximising asset value.
- (c) Encourage resolution as means of first resort for recovery and plugging the loopholes in the existing debt recovery procedures.
- (d) It does not make any distinction between the rights of international and domestic creditors or between classes of financial institutions. The Code has sought to balance the interest of all the stakeholders including alteration in the order of priority of payment of Government dues.
- (e) Promotion of entrepreneurship, availability of credit and ease of doing business.
- (f) Creating infrastructure which can eradicate inefficiencies involved in bankruptcy process by introducing National Company Law Tribunal ('NCLT'), Insolvency Resolution Professional Agencies ('IRPAs'), Insolvency Professionals ('IPs') and Information Utilities ('IUs').
- (g) Facilitate the application of consistent and coherent provisions to different stakeholders affected by Business failure and inability to pay debt.
- (h) Address the challenges being faced for swift and effective bankruptcy resolution.
- (i) Improve the handling of conflict between creditors and debtors.
- (j) Improve ease of doing business ranking for India.
- (k) To develop a vibrant market for debt.
- (l) To increase flow of lending by banks and reduce rate of interest.

**3. (a) Can a Company pay compensation to its Directors for loss of office?
State briefly the respective provisions of The Companies Act, 2013 in this regard.**

(b) What is Internal Audit and who can be appointed as Internal Auditor? (8+8)

Answer:

- 3. (a)** A company can pay compensation to its Directors for loss of office as provided in Section 202 of The Companies Act, 2013. Under Sections 202, such compensation can be paid only to the Managing Director, Director holding the office of the manager and to a whole time Director but not to others. The compensation payable shall be on the basis of average remuneration actually earned by such Director for three years or such shorter period as the case may be, immediately preceding the ceasing of holding of such office and shall be for the unexpired portion of his term or for three years whichever is shorter. No such payment can be made if winding up of the company is commenced before or commences within 12 months after he ceases to hold office if the assets of the company on the winding up after deducting expenses thereof are not sufficient to repay to the shareholders the share capital (including the premium, if any) contributed by them. However, no payment of compensation can be made in the following cases:
- (i) where a director resigns on the ground of amalgamation or reconstruction and is appointed the office of managing director or manager or other officer of such reconstructed or amalgamated company,

- (ii) where the director resigns his office otherwise than on the reconstruction of the company or its amalgamation as aforesaid,
- (iii) where the director vacates office under Section 167 of The Companies Act, 2013,
- (iv) Where the winding up of the company is due to the negligence of the director concerned,
- (v) Where the director has been guilty of any fraud or breach of trust,
- (vi) where the director has instigated or has taken part directly or indirectly in bringing about the termination of his office.

(b) There was no provision under the Companies Act, 1956 for Internal Audit. Section 138 of the Companies Act, 2013 came into force from 1st April, 2014 which provides for it. According to Section 138 of the Companies Act, 2013 and the Companies (Accounts) Rules, 2014:

Companies required to appoint Internal Auditor

- (1) The following class of companies shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate [As amended vide notification no. G.S.R. 742(E) dated 27th July, 2016], namely:
- (a) every listed company.
 - (b) every unlisted public company having:
 - (i) paid up share capital of ₹ 50 crore or more during the preceding financial year, or
 - (ii) turnover of ₹ 200 crore or more during the preceding financial year, or
 - (iii) outstanding loans or borrowings from banks or public financial institutions exceeding ₹ 100 crores or more at any point of time during the preceding financial year, or
 - (iv) outstanding deposits of ₹ 25 crore or more at any point of time during the preceding financial year, and
 - (c) every private company having:
 - (i) turnover of ₹ 200 crore or more during the preceding financial year, or
 - (ii) outstanding loans or borrowings from banks or public financial institutions exceeding ₹ 100 crore or more at any point of time during the preceding financial year.
- (2) The Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.

Following persons can be appointed as Internal Auditor:

- (a) Internal Auditor shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company. Here, the term Chartered Accountant shall mean a Chartered Accountant whether engaged in practice or not.
- (b) The internal auditor may or may not be an employee of the company.

4. (a) State the prohibitions on Acceptance of Deposits from Public as specified u/s 73 of the Companies Act

(b) Zeda Company Ltd in its Annual General Meeting appointed all its directors by passing one single resolution. No objection was made to the resolution. Examine the validity of the appointment of directors explaining the relevant provisions of the Companies Act, 2013. Will it make any difference, if Zeda Company was a private company?

10+6

Answer

4. (a) Under Section 73, provisions as to acceptance of deposits by companies have been considerably modified and made more stringent in the Companies Act, 2013. On and after the commencement of this Act, no company shall invite, accept or renew deposits under this Act from the public except in a manner provided under this Chapter. Provided that nothing in this Sub-Section shall apply to a banking company and non-banking financial company as defined in the Reserve Bank of India Act, 1934 and to such other company as the Central Government may, after consultation with the Reserve Bank of India, specify in this behalf.
- (b) A company may, subject to the passing of a resolution in general meeting and subject to such rules as may be prescribed in consultation with the Reserve Bank of India, accept deposits from its members on such terms and conditions, including the provision of security, if any, or for the repayment of such deposits with interest, as may be agreed upon between the company and its members, subject to the fulfilment of the following conditions, namely:
- (i) issuance of a circular to its members including therein a statement showing the financial position of the company, the credit rating obtained, the total number of depositors and the amount due towards deposits in respect of any previous deposits accepted by the company and such other particulars in such form and in such manner as may be prescribed.
 - (ii) filing a copy of the circular along with such statement with the Registrar within thirty days before the date of issue of the circular.
 - (iii) depositing such sum which shall not be less than fifteen per cent of the amount of its deposits maturing during a financial year and the financial year next following, and kept in a scheduled bank in a separate bank account to be called as deposit repayment reserve account.
 - (iv) providing such deposit insurance in such manner and to such extent as may be prescribed. certifying that the company has not committed any default in the repayment of deposits accepted either before or after the commencement of this Act or payment of interest on such deposits, and
 - (v) providing security, if any for the due repayment of the amount of deposit or the interest thereon including the creation of such charge on the property or assets of the company. Provided that in case where a company does not secure the deposits or secures such deposits partially, then, the deposits shall be termed as 'unsecured deposits' and shall be so quoted in every circular, form, advertisement or in any document related to invitation or acceptance of deposits.
- (c) Every deposit accepted by a company under Sub-Section (2) shall be repaid with interest in accordance with the terms and conditions of the agreement referred to in that Sub-Section.
- (d) Where a company fails to repay the deposit or part thereof or any interest thereon under Sub-section (3) the depositor concerned may apply to the Tribunal for an order directing the company to pay the sum due or for any loss or damage incurred by him as a result of such non-payment and for such other orders as the Tribunal may deem fit.
- (e) The deposit repayment reserve account referred to in clause (c) of Sub-Section (2) shall not be used by the company for any purpose other than repayment of deposits.
- (b) Under section 162(1) of the Companies Act, 2013, at a general meeting of a company, a motion for the appointment of two or more persons as directors of the company by a single resolution shall not be moved unless a proposal to move such a motion has first been agreed to at the meeting without any vote being cast against it. From the above provision of law, it is mandatory for the company to first get a unanimous approval of the company on the appointment or more than one director

by a single resolution. In the given case, no such motion was put to vote at the meeting and passed unanimously. Merely not raising any objection is not the same as active unanimous approval.

Further, according to section 162(2), a resolution moved in contravention of sub-section (1) shall be void, whether or not any objection was taken when it was moved. Hence, in the given case the appointment of all the directors made by a single resolution at the AGM is void. The Ministry of Corporate Affairs has clarified via Notifications No,464(E) dated 5th June, 2015, that section 162 of the Companies Act, 2013, shall not apply to a private company, Thus, if Zeda would have been a private company, then provisions of section 162 shall not be attracted.

5. (a) State the Functions of the Insurance Reugulatory and Development Authority.

(b) What are the Objectives of The Competition Act, 2002? (8+8)

Answer:

5. (a) The Functions of Insurance Regulatory and Development Authority under tha said Act of 1999 are as follows:

- (i) Nomination by Policyholders.
- (ii) Settlement of insurance claim.
- (iii) Practical training for Insurance agents and other intermediaries.
- (iv) Insurable Interest.
- (v) Surrender value of Policyholders
- (vi) Code of conduct of Insurance intermediaries.
- (vii) Assistance in gaining correct information about policies.
- (viii) Creation of management information system.
- (ix) Promotion of Self regulation within the insurance sector.

(b) Objectives of the Competition Act, 2002:

Keeping in view of the economic development of the country, the Competition Act, 2002 was laid down to provide for an establishment of a Commission seeks to achieve the following objectives:

- (a) to prevent practices having adverse effect on competition.
- (b) to promote and sustain competition in markets.
- (c) to protect the interests of consumers.
- (d) to ensure freedom of trade carried on by other participants in markets in India and for matters connected therewith or incidental thereto.

The objectives of the Act are sought to be achieved through the instrumentality of the Competition Commission of India (CCI) which has been established by the Central Government with effect from 14th October, 2003.

6. (a) What do you mean by 'Connected Person' according to SEBI (Prohibition of Insider Trading) Regulations, 2015

(b) State the modes of payment allowed for receiving Foreign Direct Investment in an Indian Company under the Foreign Exchange Management Act, 1999. (10+6)

Answer:

6. (a) Regulation 2(d) describes "Connected Person". "Connected Person" means; any person who is or has during the six months prior to the concerned act been associated with a company, directly or indirectly, in any capacity including by reason of frequent communication with its officers or by being in any contractual, fiduciary or employment relationship or by being a director, officer or an employee of the company or holds any position including a professional or business relationship

between himself and the company whether temporary or permanent, that allows such person, directly or indirectly, access to unpublished price sensitive information or is reasonably expected to allow such access.

Without prejudice to the generality of the foregoing, the persons falling within the following categories shall be deemed to be connected persons unless the contrary is established,:

- a. an immediate relative of connected persons specified in clause (i); or
 - b. a holding company or associate company or subsidiary company; or
 - c. an intermediary as specified in section 12 of the Act or an employee or director thereof; or
 - d. an investment company, trustee company, asset management company or an employee or director thereof; or
 - e. an official of a stock exchange or of clearing house or corporation; or
 - f. a member of board of trustees of a mutual fund or a member of the board of directors of the asset management company of a mutual fund or is an employee thereof; or
 - g. a member of the board of directors or an employee, of a public financial institution as defined in section 2 (72) of the Companies Act, 2013; or
 - h. an official or an employee of a self-regulatory organization recognised or authorized by the Board; or
 - i. a banker of the company; or
 - j. a concern, firm, trust, Hindu undivided family, company or association of persons wherein a director of a company or his immediate relative or banker of the company, has more than ten per cent. of the holding or interest.
- (b)** An Indian company issuing shares / convertible debentures under FDI Scheme to a person resident outside India shall receive the amount of consideration required to be paid for such shares / convertible debentures by:
- (a) inward remittance through normal banking channels.
 - (b) debit to NRE / FCNR account of a person concerned maintained with an AD Category-I bank.
 - (c) conversion of royalty/lump sum/technical know-how fee due for payment or conversion of ECB, shall be treated as consideration for issue of shares.
 - (d) conversion of import payables / pre incorporation expenses / share swap can be treated as consideration for issue of shares with the approval of FIPB.
 - (e) debit to non-interest bearing Escrow account in Indian Rupees in India which is opened with the approval from AD Category-I bank and is maintained with the AD Category-I bank on behalf of residents and non-residents towards payment of share purchase consideration. If the shares or convertible debentures are not issued within 180 days from the date of receipt of the inward remittance or date of debit to NRE/FCNR (B)/Escrow account, the amount shall be refunded. Further, Reserve Bank may on an application made to it and for sufficient reasons permit an Indian Company to refund/allot shares for the amount of consideration received towards issue of security if such amount is outstanding beyond the period of 180 days from the date of receipt.

7. (a) State the OECD Principles of Corporate Governance.

(b) State the National Voluntary Guidelines, 2011 on Social, Environmental and Economic Responsibilities of Business? (10+6)

- 7. (a)** (a) In response to a call by its council, the OECD issued the OECD Principles of Corporate Governance in 1999 after extensive consultations. These were later revised in 2004 following a comprehensive survey of corporate governance practices in and outside the OECD area. Since their launch, the principles have

formed the basis for corporate governance initiatives in both OECD and non-OECD countries alike. They represent the minimum standard that countries with different traditions have agreed on, being applicable to countries with a civil and common law tradition without being unduly prescriptive. The principles have been devised with four fundamental concepts in mind: responsibility, accountability, fairness and transparency and enabling diversity of rules and regulations. They outline the following:

- (1) the basis for an effective corporate governance framework.
- (2) the rights of shareholders.
- (3) equitable treatment of shareholders.
- (4) the role of stakeholders in corporate governance.
- (5) disclosure and transparency, and
- (6) the responsibilities of the board.

(b) The 2004 revisions covered four main areas:

- A. a new set of principles on the development of regulatory framework to underpin corporate governance mechanisms for implementation and enforcements.
- B. additional principles to strengthen the exercise of informed ownership by shareholders that call on institutional investors to disclose their corporate
- C. governance policies and to strengthen the rights of shareholders when choosing Board members.
- D. strengthened principles to reinforce Board oversight and enhance Board members' independent judgment, and
- E. new and strengthened principles to contain conflicts of interest through enhanced disclosure and transparency (for example, on related party transactions), thus making auditors more accountable to shareholders and promoting auditors' independence.

(b) National Voluntary Guidelines 2011 on Social, Environmental and Economic Responsibilities of Business:

The Guidelines emphasize that businesses have to endeavour to become responsible actors in society, so that their every action leads to sustainable growth and economic development. These Guidelines have been developed through an extensive consultative process by a Guidelines Drafting Committee (GDC) comprising competent and experienced professionals representing different stakeholder groups. The Guidelines are designed to be used by all businesses irrespective of size, sector or location and therefore touch on the fundamental aspects the 'spirit' of an enterprise. The Guidelines are applicable to all such entities, and are intended to be adopted by them comprehensively, as they raise the bar in a manner that makes their value creating operations sustainable.

The Guidelines have been articulated in the form of nine (9) Principles with the Core Elements to actualize each of the principles. A reading of each Principle, with its attendant Core Elements, should provide a very clear basis for putting that Principle into practice.

- 8. Write short notes on: (4 Questions are to be answered) (4x4=16)**
- (i) Foreign Currency Convertible Bond under FEMA, 1999**
 - (ii) Indemnity & Subrogation under the Insurance Act, 1938**
 - (iii) Casual Vacancy U/s 161(4) of the Companies Act, 2013**
 - (iv) The Principle of Non-interference under the Companies Act, 2013**
 - (v) Maintenance of cash reserve by non-scheduled banks under the Banking Regulation Act, 1949**

Answer:

8. (i) **Foreign Currency Convertible Bond (FCCB) under FEMA, 1999**

'Foreign Currency Convertible Bond' (FCCB) under Foreign Exchange Management Act, 1999 means a bond issued by an Indian company expressed in foreign currency, the principal and interest of which is payable in foreign currency. FCCBs are issued in accordance with the Foreign Currency Convertible Bonds and ordinary shares (through depository receipt mechanism) Scheme, 1993 and subscribed by a non-resident entity in foreign currency and convertible into ordinary shares of the issuing company in any manner, either in whole, or in part.

(ii) **Indemnity and Subrogation under the Insurance Act, 1938**

Most kinds of insurance policies other than life and personal accident insurance are contracts of indemnity whereby the insurer undertakes to indemnify the insured for the actual loss suffered by him as a result of the occurring of the event insured against. Even within the maximum limit, the insured cannot recover more than what he establishes to be his actual loss [Vania Silk Mills (P) Ltd. v. CIT (1991) 4 SCC 22]. A contract of marine insurance is an agreement whereby the insurer undertakes to indemnify the insured to the extent agreed upon. Although the insured is to be placed in the same position as if the loss has not occurred, the amount of indemnity may be limited by certain conditions:

- (a) Injury or loss sustained by the insured has to be proved.
- (b) The indemnity is limited to the amount specified in the policy.
- (c) The insured is indemnified only for the proximate causes.
- (d) The market value of the property determines the amount of indemnity.

(iii) **Casual Vacancy [Section 161 (4)]**

Section 161 (4) of the Companies Act, 2013 provides for appointment of director in casual vacancy. According to this section:

- (i) In the case of a public company, if the office of any director appointed by the company in general meeting is vacated before his term of office expires in the normal course, the resulting casual vacancy may, in default of and subject to any regulations in the articles of the company, be filled by the Board of Directors at a meeting of the Board.
- (ii) Any person so appointed shall hold office only upto the date up to which the director in whose place he is appointed would have held office if it had not been vacated.

(iv) **The Principle of Non-interference (Rule in Foss v. Harbottle)**

The general principle of company law is that every member holds equal rights with other members of the company in the same class. The scale of rights of members of the same class must be held evenly for smooth functioning of the company. In case of difference(s) amongst the members the issue is decided by a vote of the majority. The basic principle of non-interference with the internal management of company by the court is laid down in a celebrated case of Foss v. Harbottle 67 E.R. 189. (1843) 2 Hare 461 that no action can be brought by a member against the directors in respect of a wrong alleged to be committed to a company. The company itself is the proper party of such an action.

(v) **Maintenance of cash reserve by non-scheduled banks [Section 18]**

According to Section 18, every banking company not being a scheduled bank (i.e., a non-scheduled bank) has to maintain in India on daily basis by way of cash reserve with itself or in current account opened with the Reserve Bank or the State Bank of India or any notified Bank or partly in cash with itself and partly in such account or accounts a sum equivalent to at least 3% of its total time and demand liabilities. The requirement for maintenance of Cash Reserve Ratio (CRR) by Scheduled Banks is specified in the Section 42 of the Reserve Bank of India Act, 1934.