

**FINAL EXAMINATION**

**GROUP III**

**(SYLLABUS 2012)**

**SUGGESTED ANSWERS TO QUESTIONS**

**DECEMBER 2017**

**Paper-13: CORPORATE LAWS AND COMPLIANCE**

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.*

*Write answers to all parts of a question together.*

*Open a new page for answer to a new question*

*Where necessary, suitable assumptions may be made and disclosed by way of a Note.*

*Answer Question No. 1 (carrying 20 marks) which is compulsory and also answer any five (carrying 16 marks each) from Question No. 2 to question No. 8*

1. Answer any four from the following:

- (a) Explain the concept of Deemed Prospectus under the Companies Act, 2013. 5
- (b) Fill in the blanks in the following sentences by using appropriate word(s) / phrase(s) / number(s): 1×5=5
- (i) Every listed public company shall have 'Independent Directors' of at least \_\_\_\_\_ of the total number of Directors.
- (ii) No person shall be eligible to incorporate more than \_\_\_\_\_ company or become nominee in more than one such company.
- (iii) \_\_\_\_\_ means the segregation of ownership and management from trading rights of the member of a recognized stock exchange in accordance with a scheme approved by the SEBI.
- (iv) Every Company shall hold the first meeting of the Board of Directors within \_\_\_\_\_ of the date of incorporation.
- (v) The Companies Act, 2013 specified "Small Shareholders" as a Shareholder holding shares of nominal value of a not more than \_\_\_\_\_.
- (c) Choose the most appropriate answer from the stated options and write it down (only indicate (A) or (B) or (C) or (D) as you think correct). 1×5= 5
- (i) Types of penalties have been contemplated under the Companies Act, 2013 are of  
(A) Three types (B) four types  
(C) Five types (D) none of these
- (ii) No banking company shall create any charge upon its  
(A) Paid up Capital (B) Unpaid Capital  
(C) Paid up and unpaid capital (D) None of these

# Suggested Answer\_Syl12\_Dec 2017\_Paper\_13

- (iii) Minimum paid up equity capital for any health insurance company to register in India is  
 (A) ₹500 crore (B) ₹400 crore  
 (C) ₹200 crore (D) ₹100 crore

(iv) Authorised person under the Foreign Exchange management Act means

- (A) An authorized dealer (B) Money Changer  
 (C) Both of (A) and (B) (D) None of these

(v) As per Section 177 of the Companies Act, 2013 every public company having paid up capital of \_\_\_\_\_ shall constitute an Audit Committee. (Fill in the gap from the below):

- (A) Fifty lakh rupees (B) twenty - five crore rupees  
 (C) Five crore rupees or more (D) ten crore rupees or more

(d) Match the following:

1×5= 5

	Column A		Column B
1.	Disclaimer of onerous property	a.	Competition Commission of India
2.	Implementation guidance	b.	SARFAESI Act
3.	Originator	c.	Securities Contract (Regulation Act)
4.	Tie in agreement	d.	CSR
5.	Demutualisation	e.	Indian Company Law

(e) CSR can mean different things to different people. Explain.

5

**Answer:**

1. (a) Deemed Prospectus: Under section 25 (1) of the Companies Act, 2013 any document by which an offer for sale of any securities is made to the public and the company allots or agrees to allot securities in terms thereof, then such document shall for all purposes, be deemed to be a prospectus and all enactments and rules of law as to the contents in a prospectus and as to liability in respect of mis statements and omissions therein shall apply and shall have effect as they apply to a prospectus.

From the above provision it is quite clear that the deemed prospectus is not intended to be a document with any exceptions or concessions Vis a Vis a prospectus. It only broadens the scope of a prospectus to include not only the formal document issued as a prospectus but also all nature of communication made by the company with the intention of selling an issue, it is designed to prevent companies from making misleading statements through various documents, notices or circulars while keeping the formal prospectus document clean.

- (b) (i) 1/3 rd (ii) One person (iii) Demutualization (iv) 30 days  
 (v) ₹20,000

- (c) (i) (C) Five types (ii) (B) Unpaid Capital (iii) (D) ₹100 Crore  
 (iv) (C) Both of (A) & (B) (v) (D) Ten Crore Rupees or moe

(d)

	Column A		Column B
1.	Disclaimer of onerous property	e.	Indian Company Law
2.	Implementation guidance	d.	CSR
3.	Originator	b.	SARFAESI Act

# Suggested Answer\_Syl12\_Dec 2017\_Paper\_13

4.	Tie in agreement	a.	Competition Commission of India
5.	Demutualization	c.	Securities Contract (Regulation Act)

(e) Corporate Social Responsibilities (CSR) is an integrated combination of policies programs, education, and practices which extend throughout a corporation operations and into the communities in which they operate, about how companies voluntarily manage the business processes to produce an overall ,positive impact on society CSR can mean different things to different people:

- For an employee it can mean fair wages, no discrimination, acceptable working conditions etc.
- For a shareholder it can mean making responsible and transparent decisions regarding the use of capital.
- For suppliers it can mean receiving payment on time.
- For customers it can mean delivery on time etc.
- For local communities and authorities it can mean taking measures to protect the environment from pollution.
- For non- governmental organization and pressure groups it can mean disclosing business practices and performance on issues ranging from energy conservation and global warming to human rights and animal rights, from protection of the rainforests and endangered species to child and forced labour, etc.
- For a company, however, it can simply be seen as responding to the needs and concerns of people who can influence the success of the company and/or whom the company can impact through its business activities, processes and products.

2. (a) **Universal, a foreign company, incorporated in Australia was carrying on its business in Delhi related to manufacturing of automobile parts. Due to failure of its compliance with the respective law of the country under which it was incorporated, it was ceased to exist. Decide in the light of the Companies Act, 2013 the status of the company and the effect on the conduct of business in India.** 4

(b) **PSU Limited, a company incorporated in India has six members in its Audit Committee. Due to recessionary conditions in India the revenue of the company is going down and there is slow down in other activities of the company. Therefore, it was expected that there would not be significant work for members of the Audit Committee. Considering the overall recession in the company and the economy, the members of the committee decided unanimously to meet once in a year only on March 31, 2017. They reviewed monthly information system of the Company and found no errors. Would you consider the decision taken by the Audit Committee is in line with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015? Explain.** 8

(c) **Briefly explain the Content of Management Discussion and Analysis.** 4

Answer:

2. (a) Section 376 of the Companies Act, 2013 provides the law related to the power of wind up Foreign Companies, although dissolved. Provision states that where a body corporate incorporated outside India which has been carrying on business in India, ceases to carry on business in India, it may be wound up as an unregistered company under this part(i.e., Part 1 of the Chapter 21 which deals with the Companies authorized to register under this Act), notwithstanding that the body corporate has been dissolved or otherwise ceased to exist as such under or by virtue of the laws of the country under which it was incorporated.

## Suggested Answer\_Syl12\_Dec 2017\_Paper\_13

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As per the facts given in the Question, universal, a foreign company, incorporated in Australia ceased to exist as per the law of the country, also ceased to carry on business in Delhi. Accordingly, Universal Company may be wound up as an unregistered company although it ceased to exist in Australia.

- (b) Audit Committee Meetings: One of the following additional requirement as stipulated under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ( LODR) on which Section 177 of the Companies Act, 2013 (Relating to Audit Committee) is silent. The Audit Committee should meet at least four times in a year and not more than one hundred and twenty days shall elapse between two meetings. The quorum shall be either two members or one third of the members of the Audit Committee whichever is greater, but there should be a minimum of two independent directors present.

Besides, there is a mandatory review requirement and to review only monthly information system is not sufficient. Here the Audit Committee Members reviewed only monthly information system of the Company and same is not sufficient as per LODR Regulations.

The Audit Committee shall mandatorily review the following information as per LODR Regulations.

- (i) Management discussion and analysis of Financial condition and results of operation;
- (ii) Statement of significant related party transactions (as defined by the Audit Committee), submitted by the management;
- (iii) Management letters/ letters of internal control weaknesses issued by the statutory Auditors;
- (iv) Internal Audit reports relating to internal control weaknesses;
- (v) The appointment, removal and terms of remuneration of the Chief Internal Auditor shall be subject to review by Audit Committee; &
- (vi) Statement of deviations: (a) Quarterly statement of deviations including report of Monitoring agency if applicable and (b) Annual statement of funds utilized for purposes other than those stated in the offer document/ prospectus/notice.

Applying the above, the decision taken by the Audit Committee is not in line with the LODR regulations

- (c) Content of the Management Discussion and Analysis: As part of the Directors report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders. This Management Discussion and Analysis should include discussion on the following matters within the limits set by the company's competitive position :

- (i) Industry structure and development.
- (ii) Opportunities and Threats
- (iii) Segment wise or product wise performance.
- (iv) Outlook
- (v) Risks and concerns
- (vi) Internal control Systems and their adequacy
- (vii) Discussion on Financial performance with respect to operational performance
- (viii) Material developments in Human resources/Industrial relations front, including the number of people employed.

3. (a) **Mr. Zupi was appointed as a Member of the Competition Commission of India by Central Government. He has a professional experience in international business for a period of 12 years, which is not a proper qualification for appointment of a person as member. Pointing out this defect in the Constitution of Commission, Mr. Yakub, against**

# Suggested Answer\_Syl12\_Dec 2017\_Paper\_13

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whom the commission gave a decision, wants to invalidate the proceedings of the commission. Examine with reference to the provisions of the Competition Act, 2002 whether Mr. Yakub will succeed . 4

- (b) M/s Samrat is a company engaged in providing services of supplying goods all over the world through aircrafts. The aircrafts of the said company is registered and insured in India with the reputed insurance company. Company found that the insurance policy of one of aircraft which is in Europe had expired. Company said to his officer to get new Insurance policy of that aircraft in Europe. State the validity of such an act of registration of aircraft in Europe. 4
- (c) Explain the responsibilities of banking companies under the Prevention of Money Laundering Act, 2002. 8

**Answer:**

3. (a) As per Section 15 of Competition Act 2002 Any act or proceeding of the Commission shall not be invalidated merely on the ground of:
- (a) Any vacancy in, or any defect in the Constitution of the Commission; or
  - (b) Any defect in the appointment of a person acting as a Chairperson or as a member; or
  - (c) Any irregularity in the procedure of the Commission not affecting the merits of the case. Here in this case Mr. Zupi should have professional qualification of not less than 15 years as per Section 8 of the Act but this disqualification will not invalidate the proceeding of the Commission.
- (b) Given problem is based on the Section 2CB of the Insurance Act, 1938. Said Section deals with the Indian properties not to be insured with foreign insurers. According to the Section No person shall take out or renew any policy of Insurance in respect of any property in India or any ship or other vessel or aircraft registered in India with an insurer whose principal place of business is outside India, without the permission of the IRDAI. In the given case Act of registration of aircraft M/S SAMRAT which is an Indian property, with an insurer in Europe, is an invalid Act.
- (c) Section 12 provides for the obligation of Banking Companies. Financial Institution and Intermediaries or a Person carrying on a designated business or profession. According to Subsection (1), every banking Company, Financial Institution and intermediary or a person carrying on a designated business or a profession shall-
- (a) Maintain a record of all transaction, including information relating to transactions covered under Clause (b), in such manner as to enable it to reconstruct individual transaction;
  - (b) Furnish to Director within such time as may be prescribed, information relating to such transactions, whether attempted or executed, the nature and value of which may be prescribed;
  - (c) Verify the identity of its clients in such manner and subject to such conditions, as may be prescribed;
  - (d) Identify the beneficial owner, if any, of such of its clients, as may be prescribed
  - (e) Maintain record of documents evidencing identity of its clients and beneficial owners as well as account files and business correspondence relating to its clients.
- Every information maintained , furnished or verified, save as otherwise provided under any law for the time being in force shall be kept confidential.
- The records referred to in clause (a) of subsection (1) shall be maintained for a period of 5 years from the date of transaction between a client and the reporting entity.
- The records referred to in clause(e) of sub section (1) shall be maintained for a period of five years after the business relationship between a client and the reporting entity has

# Suggested Answer\_Syl12\_Dec 2017\_Paper\_13

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ended or the account has been closed, whichever is later,  
The Central Government may, by notification, exempt any reporting entity or class of reporting entities from any obligation under this chapter.

4. (a) State the circumstances under which a company may be wound up by Tribunal. 7
- (b) State the law with respect to the Establishment of Special Court. Mr. A is judicial magistrate in a lower court. He was appointed to hold the office of the special court for the speedy disposal of the pending cases under the Act. Decide as per the applicable provisions of the Companies Act, 2013 whether the appointment of Mr. A is tenable. 5
- (c) Explain the provision relating to Reserve Fund under the Banking Regulation Act, 1949. 4

## Answer:

4. (a) (i) Circumstances in which company, may be wound up by Tribunal (Section 271) Grounds on which a Company may be wound up by the Tribunal, a Company under Section 271(1) may be wound up by the Tribunal if:
- (a) The company is unable to pay its debts .
  - (b) The company has by special resolution resolved that the company be wound up by the Tribunal.
  - (c) The company has acted against the interest of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency, or morality.
  - (d) The Tribunal has ordered the winding up of the company under chapter XIX (i.e., Revival and Rehabilitation of sick companies).
  - (e) On an application made by the Registrar or any other person authorized by the Central Government by notification under this Act, the Tribunal is of the opinion that the affairs of the company have been conducted in a fraudulent manner or the company was formed for fraudulent and unlawful purpose or the persons concerned in the formation or management of its affairs have been guilty of fraud, misfeasance or misconduct in connection therewith and that it is proper that the company be wound up.
  - (f) The Company has made a default in filing with the registrar its financial statements or annual returns for immediately preceding five consecutive financial years or
  - (g) The Tribunal is of the opinion that it is just and equitable that the company should be wound up.
- (b) Establishment of Special Court; As per Section 435 of Companies Act 2013, the Central Government may for the purpose of providing speedy trial of offences punishable under this Act with imprisonment of two years or more, by notification, establish or designate as many special Courts as may be necessary Provided that all other offences shall be tried, as the case may be, by a Metropolitan Magistrate or a Judicial Magistrate of the First class having jurisdiction to try any offence under this Act or under any previous Company law.
- Appointment of judge: A Special Court shall consist of a single judge who shall be appointed by the Central Government with the concurrence of the Chief Justice of the High Court within whose jurisdiction the judge to be appointed is working. A person shall not be qualified for appointment as a judge of a Special Court unless he is, immediately before such appointment holding office of a Session Judge or an additional Session Judge.
- Since in the given case, Mr. A who is a judicial magistrate in a lower Court was appointed to hold the office of the Special Court for the speedy disposal of the pending cases under the Act. As per the above provision person shall be qualified for

## Suggested Answer\_Syl12\_Dec 2017\_Paper\_13

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appointment as a judge of a Special Court if he, immediately before such appointment holding office of a Session Judge or an Additional Session Judge. Here Mr. A was not complying with the eligibility criteria, so his appointment as a judge of Special Court is not tenable.

- (c) (Section 17) - Every Banking Company incorporated in India must create a reserve Fund and transfer a sum equal to not less than 20% of its net profits. However, Central Government is empowered to exempt from this requirement on the recommendation of the RBI. Such exemption will be allowed only:-

- When the amounts in the reserve fund and the share premium account are equal to the paid up capital of the Banking Company
- When the Central Government feel that its paid up Capital and reserves are adequate to safeguard the interest of the depositors

If a Banking Company appropriates any sum from the reserve Fund or the share premium account, it must be reported to RBI within 21 days explaining the circumstances leading to such appropriation.

5. (a) (i) **State with reference to the relevant provisions of the Companies Act, 2013 whether the following persons can be appointed as a Director of a Company:**
- (I) **Mr. A who has huge personal liabilities far in excess of his Assets and Properties has applied to the court for adjudicating him as an insolvent and such application is pending.**
  - (II) **Mr. B who was caught red-handed in a shop lifting case two years ago, was convicted by a court and sentenced to imprisonment for a period of eight weeks.** 2+2=4
- (ii) **A petition by majority shareholders complaining oppression by minority shareholders. Give your answer according to the provisions of the Companies Act, 2013.** 4
- (b) (i) **The Central Government has granted recognition to a stock exchange. To what conditions may such a recognition be subject to as per provision of SCRA, 1956?** 4
- (ii) **List the key benefits of MCA 21 project.** 4

**Answer:**

5. (a) (i)

- (I) Section 164 (1)(c) states that a person shall not be eligible for appointment as a director: of a company if he has applied to be adjudicated as an insolvent and his application is pending. Therefore, in the present case, MR. A can not be appointed as a Director of a Company- whether public or private.
  - (II) Section 164 (1)(d) states that a person shall not be eligible for appointment as a Director of a Company if he has been convicted by a Court for any offence involving general turpitude or otherwise and sentenced in respect thereof to imprisonment for not less than six months, and a period of five years has not elapsed from the date of expiry of the sentence. In the present case, although the sentence was only two years ago but the period of sentence was only eight weeks i.e., less than six months. Hence, Mr. B does not come under the purview of this disqualification and can be appointed as a Director of a Company.
- (ii) Right not confined to minority: According to Section 244, The Right to apply for relief under section 241/242 is given to 100 members or 1/10 of the total number of members or any member or members holding not less than 1/10 of the issued share capital of the company. There is nothing in this section which suggests even indirectly that unless the application is made by minority shareholders it is not maintainable. The Right to apply is, therefore, not confined to oppressed minority of the shareholders alone. It was held

# Suggested Answer\_Syl12\_Dec 2017\_Paper\_13

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by Calcutta High Court in Re. Sindhri Iron Foundry(P) Ltd. that the oppressed majority also might apply for relief under section 241. Therefore the petitioners are likely to succeed in getting relief provided the other conditions laid down in Section 242(i.e., that to wind up the Company would unfairly prejudice such members, but that otherwise the facts would justify the making of a winding up order on just equitable ground) is satisfied even though the Delhi High Court held a contrary view in Suresh Kumar Sanghi versus Supreme Motors Ltd.

(b)(i) Grant of recognition to stock exchanges - Conditions: Section 4(2), SCRA, 1956.

The conditions may include, condition relating to:

1. Qualification of Membership of the Stock Exchange.
2. Manner in which contracts shall be entered into and enforced as between members.
3. Representation of the Central Government on each of the Stock Exchange (not exceeding 3 nominated by the Central Government).
4. Maintenance of Accounts of members and their audit by Chartered Accountants whenever audit is required by the Central Government.

(ii) **Key Benefits**

**MCA 21 seeks to fulfill the requirements of the various stakeholders. The key benefits of MCA 21 project are:**

- (i) Expeditious incorporation of companies
- (ii) Simplified and ease of convenience in filling of forms/returns
- (iii) Better compliance management
- (iv) Total transparency through e-governance
- (v) Customer centric approach
- (vi) Increased usage of professional certificate for ensuring authenticity and reliability of the forms/returns
- (vii) Building up a centralized database repository of corporate operating.
- (viii) Enhanced service level fulfillment

6. (a) **A group of creditors of Mac Trading Limited makes a complaint to the Registrar of Companies, Hyderabad alleging that the management of the company is indulging in destruction and falsification of the accounting records of the company. The complainants request the Registrar to take immediate steps to seize the records of the company so that the management may not be allowed to tamper with the records. The complaint was received at 10 A.M. on 1st July 2015 and the ROC entered the premises at 10.30 A.M. for the search. Examine the powers of the Registrar to seize the books of the company.** 6

(b) **In what way does the Companies Act, 2013 restricts the non-cash transactions involving Directors of Public Limited Company? Explain.** 5

(c) **Which is the Apex Body to ensure integrated operation of the power system in the state? What are the duties of this Authority?** 5

**Answer:**

6. (a) Search and seizure Section 209 of the Companies Act 2013 provides that where upon information in his possession or otherwise, the Registrar or Inspector has reasonable ground to believe that the books and papers of
- (i) a company or



## Suggested Answer\_Syl12\_Dec 2017\_Paper\_13

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- (ii) relating to the key managerial personnel, or
- (iii) Any Director, or
- (iv) Auditor, or
- (v) Company Secretary in practice if the company has not appointed Company Secretary are likely to be destroyed, mutilated, altered, falsified or secreted, he may, after obtaining an order from the Special Court for the seizure of such books and papers-
  - (1) Enter, with such assistance as may be required and search the place or places where such book or papers are kept; and
  - (2) Seize such books and papers as he considers necessary after allowing the Company to take copies of or extracts from, such books or papers at its cost.

According to the above provisions, Registrar may enter and search the place where such books or papers are kept and seize them only after obtaining an order from the Special Court.

Since in the given question, Registrar entered the premises for the search and seizure of books of the company without obtaining an order from the Special Court, he is not authorized to seize the books of Mac Trading Limited.

(b) Restrictions on non-cash transactions involving directors [Section 192]

1. No company shall enter into an arrangement by which-
  - (a) a director of the company or its holding, subsidiary or associate company or a person connected with him acquires or is to acquire assets for consideration other than cash, from the company: or
  - (b) the company acquires or is to acquire assets for consideration other than cash from such director or person so connected, unless prior approval for such arrangement is accorded by a resolution of the company in general meeting and if the director or connected person is a director of its holding company, approval under this sub-section shall also be required to be obtained by passing a resolution in general meeting of the holding company.
2. The notice for approval of the resolution by the company or holding company in general meeting under sub-section (1) shall include the particulars of the arrangement along with the value of the assets involved in such arrangement duly calculated by a registered valuer.
3. Any arrangement entered into by a company or its holding company in contravention of the provisions of this section shall be voidable at the instance of the company unless-
  - (a) the restitution of any money or other consideration which is the subject-matter of the arrangement is no longer possible and the company has been indemnified by any other person for any loss or damage caused to it; or
  - (b) any rights are acquired bona fide for value and without notice of the contravention of the provisions of this section by any other person.

(c) The State Load Dispatch Centre as per sec.32 of the Electricity Act 2003 shall be the apex body to ensure integrated operation of the power system in a State. The State Load Dispatch Centre shall-

- (a) be responsible for optimum scheduling and dispatch of electricity within a State, in accordance with the contracts entered into with the licensees or the generating companies operating in that State;
- (b) monitor grid operations
- (c) keep accounts of the quantity of electricity transmitted through the State grid;
- (d) exercise supervision and control over the intra-state transmission system; and
- (e) be responsible for carrying out real time operations for grid control and dispatch of

# Suggested Answer\_Syl12\_Dec 2017\_Paper\_13

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- electricity within the State through secure and economic operation of the State grid in accordance with the Grid Standards and the State Grid Code,
- (f) levy and collect such fee and charges from the generating companies and licensees engaged in intra-state transmission of electricity as may be specified by the State Commission.
7. (a) **What are the benefits of Corporate Social Responsibility (CSR)? Discuss.** 5
- (b) **What is meant by the Corporate Governance as per renowned exponents in this field? How far do you agree with their views? (Agree / Strongly agree / Disagree etc.)** 7
- (c) **List the disadvantages of a Family Business over Non-family Business.** 4

**Answer:**

7. (a) The benefits of Corporate Social Responsibility (CSR):
1. The Law of Responsibility: Society gives business its license to exist and this can be amended or revoked at any time if it fails to live up to expectations.
  2. Enhanced Brand Image and Reputation: Customers are drawn to brands and companies with good reputations.
  3. Checks Government regulation/Controls: Regulation and control are costly to business, both in terms of energy and money. Any failure of businessmen to assume social responsibilities invites government to intervene and regulate or control their activities.
  4. Reduced Operating Costs: Some CSR initiatives can reduce operating costs dramatically. For example, many recycling initiatives cut waste- disposal costs and generate income by selling recycled materials.
  5. Improved Financial Performance: Companies which are socially responsible carry a good image in eyes of customer as well as business arena which ultimately end up in improving the Financial performance of Companies.
- (b) Corporate Governance: Corporate Governance is.
- The process of supervision and control intended to ensure that the companies management acts in accordance with the interest of share holders (Parkinson, 1994)- Strongly agree
  - The governance role is not concerned with the running of the business of the company per se, but with giving overall directions to the enterprise, with overseeing and controlling the executive actions of management and with satisfying legitimate expectations of accountability and regulation by interests beyond the Corporate boundaries (Tricker, 1984)- Agree
  - The governance of an enterprise is the sum of those activities that make up the internal regulation of the business in compliance with the obligations placed on the firm by legislation, ownership trusteeship of assets, their management and their deployment (Cannon, 1994)- Agree
  - The relationship between shareholders and their companies and the way in which shareholders act to encourage best practice (e.g. by Voting at AMs and by regular meetings with companies senior management). Increasingly, this includes shareholders activism which involves a campaign by a shareholder or a group of shareholders to achieve change in companies (the Corporate Governance Handbook 1996). Some agreement.
  - The structures, process, cultures and systems that engender the successful operation of the organization(Keasey and Wright, 1993).- Some agreement

# Suggested Answer\_Syl12\_Dec 2017\_Paper\_13

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- The system by which companies are directed and controlled (The Cadbury Report 1992).-Slight Agreement

(c) **Disadvantages of Family Businesses over Non- Family businesses**

- a) Staff recruitment: External talent can be reluctant to join the family businesses as they would not enjoy the same freedom that the other businesses offer.
- b) Raising funds for growth: Access to capital is required to grow and evolve. However, it is difficult to raise the required funds for the family businesses than non family businesses.
- c) Family Conflicts: Conflict among the family members is the major setback for the family businesses.
- d) Ownership vs. Management: Separating the ownership from the management and reaching a consensus on the roles of family members in the business are two important issues for the family businesses to address.

8. (a) **State the activities which may be included by Companies in their Corporate Social Responsibility Policies activities.** **8**

(b) **Write short notes on CSR and Sustainability.** **8**

**Answer:**

8. (a) Corporate Social Responsibility is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local-community and society at large.

**Need for social responsibility:**

- (i) Eradicating extreme hunger and poverty.
- (ii) Promotion of education.
- (iii) Promoting gender equality and empowering women.
- (iv) Reducing child mortality and improving maternal health.
- (v) Ensuring environmental sustainability.
- (vi) Social business projects.
- (vii) Employment enhancing vocational skills.
- (viii) Combating human immunodeficiency virus, malaria and other diseases.
- (ix) Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central or State Govt. for socio-economic-development and relief fund/funds for the welfare of the scheduled castes, the schedule tribes, other backward classes, minorities and women and
- (x) Such other matters as may be prescribed.

(b) **CSR and Sustainability**

Sustainability (Corporate Sustainability) is derived from the concept of sustainable development which is defined by the Brundtland Commission as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". Corporate sustainability essentially refers to the role that companies can play in meeting the agenda of sustainable development and entails a balanced approach to economic progress, social progress and environmental stewardship.

CSR in India tends to focus on what is done with profits after they are made. On the other hand, sustainability is about factoring the social and environmental impacts of conducting business, that is, how profits are made. Hence, much of the Indian practice

## Suggested Answer\_Syl12\_Dec 2017\_Paper\_13

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of CSR is an important component of sustainability or responsible business, which is a larger idea, a fact that is evident from various sustainability frameworks. An interesting case in point is the National voluntary Guidelines (NVGs) for social, environmental and economic responsibilities of business issued by the Ministry of Corporate Affairs in June 2011. Principle eight relating to inclusive development encompasses most of the aspects covered by the CSR clause of the Companies Act, 2013. However, the remaining eight principles relate to other aspects of the business. The United Nations Global Compact, a widely used sustainability framework has 10 principles covering social, environmental, human rights and governance issues, and what is described as CSR is implicit rather than explicit in these principles.

Globally, the notion of CSR and sustainability seems to be converging as is evident from the various definitions of CSR put forth by global organizations. The genesis of this convergence can be observed from the preamble to the recently released rules relating to the CSR clause within the Companies Act, 2013 which talks about stakeholders and integrating it with the social, environmental and economic objectives, all of which constitutes the idea of a triple bottom line approach. It is also acknowledged in the Guidelines on Corporate Social Responsibility and sustainability for Central Public Sector Enterprises issued by the Department of Public Enterprises (DPE) in April 2013. The new guidelines, which have replaced two existing separate guidelines on CSR and sustainable development, issued in 2010 and 2011 respectively, mentions the following:

"Since CSR and sustainability are so closely entwined, it can be said that CSR and sustainability is a company's commitment to its stakeholders to conduct business in an economically, socially and environmentally, sustainable manner that is transparent and ethical."