

## Highlights of Companies (Amendment) Bill, 2017

(As passed by Lok Sabha on July 27, 2017 and Rajya Sabha on December 19, 2017)

### Focusing on the key amendments relevant to Chartered Accountants

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- 1. Associate Company:** Definition of “Associate Company” is being amended, whereby the meaning of ‘significant influence’ is changed to 20% or more of Voting Power (*earlier, 20% or more of Total Share Capital*);
- 2. Holding Company:** Definition of “Holding Company” is widened to include “Body Corporate” as holding Company. Therefore, LLP incorporated in India and Company/LLP incorporated outside India will be treated as ‘Holding Company’ under Cos. Act, 2013;
- 3. Subsidiary Company:** As per Cos. Act, 2013, there are two conditions for a Co. to be a subsidiary of another Co. One of the conditions has been amended, whereby, it will be a subsidiary Co. if a Co. exercises control over the other Co. by having more than half of voting power (*earlier ‘total share capital’*);
- 4. Related Parties:** Scope of ‘related parties’ is expanded to ‘body corporate’ as cover Associate Co., Holding Co. and Subsidiary Co. Investing Co. and Venturer of a Co.<sup>1</sup> is also now a ‘related party’;
- 5. Turnover:** Turnover means the gross amount of revenue recognised in P&L A/c (*earlier, ‘aggregate value of realized’*) from the sale, supply, or distribution of goods or on account of services rendered, or both, by a company during a Financial Year;
- 6. Financial Year:** NCLT, on an application, may allow a company to have a different Financial Year for consolidation of its Annual Accounts with Holding Co. or Subsidiary Co. or Associate Co. (*earlier only ‘Holding Co.’ or ‘Subsidiary Co.’*) outside India. Now, Co. can now change its Financial Year to align with Associate Co. incorporated outside India;

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<sup>1</sup> As per Explanation in Cos. Amendment Bill, 2017, “Investing Company” or “Venturer of a Company” means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.

7. **Concept of 'Beneficial Owners':** The Amendment Bill introduces the concept of 'Beneficial Owners' and has prescribed compliances for the same;
8. **Signing of Financial Statements:** Pursuant to the provisions in Amendment Bill, Chief Executive Officer (whether director or not) will be required to sign Financial Statements;
9. **Corporate Social Responsibility:** Amendment Bill clarifies on CSR provisions, whereby Net Profit or Turnover criteria for formation of CSR Committee and calculation of the CSR expenditure are based on immediately preceding Financial Years (*Earlier 'Preceding 3 Financial Years'*);
10. **Ratification of appointment of Auditors:** Provision whereby Co. shall place the matter relating to Auditor's appointment for ratification by members at every AGM is deleted;
11. **Liability of Auditors:** Amendment Bill restricts the liability of Auditor for damages to the shareholders or creditors of the company instead of any other person;
12. **Eligibility & Qualifications of Auditors:** Person shall not be eligible for appointment as Auditor if he, directly or indirectly, renders any service referred to in Sec. 144 of Cos. Act, 2013 to the Co. or its Holding Co. or its Subsidiary Co. (*Earlier, a person shall not be eligible for appointment as Auditor if any person whose Subsidiary or Associate Co. or any other form of entity, is engaged in consulting and specialized services as provided in Sec. 144 of Cos. Act, 2013*);
13. **Powers & duties of Auditors:** Auditor of a Co. which is a Holding Co. shall also have the right of access to the records of all its Subsidiary Cos. and Associate Co. (*earlier only 'Subsidiary Co.'*) insofar as it relates to the consolidation of its Financial Statement with that of its subsidiaries;
14. **Auditor to report on "Managerial Remuneration":** Auditor shall, in his Report, make a statement as to whether: (i) Remuneration paid by the company to its directors is in accordance with the provisions of Sec. 197 of Cos. Act, 2013, (ii) Whether remuneration paid to any director is in excess of the limit laid down u/s 197 and give such other details as may be prescribed.