

LATEST STATUTORY SNAP SHOT



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PRACTISING COMPANY SECRETARIES & TRADE MARK AGENTS

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RESTRICTION ON LAYERS OF SUBSIDIARIES

Notification: F.No.01/13/2013 CL-V(Vol.III) dated 20th September 2017

The MCA has notified Companies (Restriction on number of Layers) Rules, 2017 (the Rules) under proviso to sub-section (87) of Section 2 read with Section 469 of the Companies Act, 2013 (the Act).

Accordingly, no company (other than specifically exempted companies) can have more than two layers of subsidiaries after 20th September, 2017 (Notification Date).

It should be noted that the restriction on layers of subsidiaries is applicable to all companies irrespective of the nature of business.

While counting the layers of subsidiaries one layer comprising (only) of one or more of wholly owned subsidiary or subsidiaries will not be accounted.



The specifically exempted companies to which the aforesaid rule on limitation on layers of subsidiaries **does not apply** are:

- a) A Banking Company under Section 5(c) of the RBI Act, 1934
- b) A systemically important NBFC registered with RBI under Section 45-I(f) of RBI Act, 1949.
- c) An Insurance Company under Insurance Act, 1938 and IRDA Act, 1999

- d) A Government Company under Section 2(45) of the Act.
- e) A Company incorporated outside India with more than two layers as per the laws of that country which is acquired by an Indian company.

Further a subsidiary company having an investment subsidiary for the purpose of meeting the requirements of any law or under any rule or regulation is also deemed to be exempt from the Rules in terms of Section 186(1) of the Act.

A company to which the Rules apply and which has subsidiaries in excess of two levels as mentioned above should comply with the following:

- a) File Form CRL-1 with MCA within 150 days of the aforesaid Notification Date.
- b) Shall not after Notification Date create any additional layer existing as at that date.
- c) Where layer(s) gets reduced subsequent to the Notification Date, such holding company shall not increase the number of layers beyond the statutory maximum as aforesaid.

Non-compliance with the Rules attracts penalties as per Section 450 of the Act.

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