



## **Corporate Social Responsibility Policy Committee**

Ever since spending a portion of net profits on CSR Activities of companies that meet specified thresholds stipulated Section 135 of the Companies Act, 2013 (the Act) became mandatory (pursuant to the amendment made on 22<sup>nd</sup> January 2021), it has become necessary to undertake a review of the governance processes installed in the company so as to ensure that companies do not knowingly or inadvertently contravene the provisions of Section 135 of the Act read with Companies (CSR Policy) Rules, 2014 (the Rules) and suffer penalties.

The specified thresholds for applicability of provisions of Section 135 of the Act are the following:

- Net worth of Rs.100 Crores or more; or
- Turnover of Rs.1000 Crores or more; or
- Net profit of Rs.5 Crores or more, during the immediately preceding financial year.

Companies meeting any of the above thresholds at the end of any financial year must first constitute a committee of directors styled as the “CSR Committee.”

CSR committee must consist of a minimum of three or more directors, out of which at least one must be an independent director. If a company is not statutorily required to have independent directors on its board, it is sufficient if the CSR Committee has a minimum of two directors.

As per Section 135(3) of the Act, major roles of the CSR Committee are to (a) formulate the CSR Policy and recommend the same to the Board; (b) recommend to the Board the amount of expenditure to be incurred on various categories of CSR activities; and (c) monitor the CSR Policy from time to time; (d) CSR Committee must formulate and recommend to the Board an Annual Action Plan in pursuance of its CSR Policy which shall include (i) the projects or programmes to be undertaken by the company as its CSR Activities; (ii) the manner of execution of those projects and programmes; (iii) modalities for utilisation of funds and implementation schedule; (iv) monitoring and reporting mechanism; and (v) details of the need and impact assessment, if any, of the projects undertaken by the company.

Even though the Act has not specified any minimum number meetings of CSR Committee to be held in a financial year, the role of the committee is sufficient to make it clear that the Annual Action Plan and impact assessment agenda will require one or two meetings per annum.

There is a need to disclose the composition of CSR committee in Board's Report. The CSR Report on the CSR implementation should form part of the Board's Report.



If a company is one to which Section 135 of the Act had earlier applied, but subsequently, it becomes a company that is no longer hit by the thresholds as stated above on the basis of the audited accounts of the said company in the immediately preceding financial year, continuation of CSR Committee is essential only if the said company has amounts lying in the unspent CSR Account to be spent on ongoing project(s).

For companies whose amount to be spent on CSR Activities does not exceed Rs.50 lakhs, there is no need to constitute CSR Committee and functions of such committee shall be discharged by the Boards of such Companies. In respect of such companies where there is no need to constitute CSR Committee, Board of Directors have to discharge the CSR obligations in all respects including completion of on-going projects so long as there is money remaining to be spent in the unspent CSR Account.

