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**STANDING COMMITTEE ON
FINANCE
(2006-07)**

FOURTEENTH LOK SABHA

MINISTRY OF COMPANY AFFAIRS

**DEMANDS FOR GRANTS
(2007-08)**

FIFTY-FIFTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

April, 2007/Vaisakha, 1929 (Saka)

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(2006-2007)

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MINISTRY OF COMPANY AFFAIRS

DEMANDS FOR GRANTS
(2007-08)

Presented to Lok Sabha on 28 April, 2007

Laid in Rajya Sabha on 03 May, 2007



LOK SABHA SECRETARIAT
NEW DELHI

April, 2007/Vaisakha, 1929 (Saka)

C.O.F. No. 47

Price : Rs. 71.00

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Published under Rule 382 of the Rules of Procedure and Conduct of
Business in Lok Sabha (Eleventh Edition) and printed by Indian Press,
Delhi-110 033.

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COMPOSITION OF STANDING COMMITTEE ON FINANCE
(2006-2007)

Shri Ananth Kumar—*Chairman**

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Dasgupta
4. Shri Shyama Charan Gupta
5. Shri Vijoy Krishna
6. Shri A. Krishnaswamy
7. Dr. Rajesh Kumar Mishra
8. Shri Bhartruhari Mahtab
9. Shri Madhusudan Mistry
10. Shri Rupchand Pal
11. Shri Prakash Paranjpe
12. Shri P.S. Gadhavi¹
13. Shri R. Prabhu
14. Shri K.S. Rao
15. Shri Magunta Sreenivasulu Reddy
16. Shri Jyotiraditya Madhavrao Scindia
17. Shri Lakshman Seth
18. Shri A.R. Shaheen
19. Shri G.M. Siddeshwara
20. Shri M.A. Kharabela Swain
21. Shri Bhal Chand Yadav

*Appointed Member and Chairman of the Committee *vice* Maj. Gen. (Retd.)
B.C. Khanduri *w.e.f.* 14 March, 2007

¹Nominated to this Committee *w.e.f.* 31.8.2006 *vice* Shri Raosaheb Danve Patil

(iv)

Rajya Sabha

22. Shri Santosh Bagrodia
23. Shri Raashid Alvi
24. Shri M. Venkaiah Naidu
25. Shri Yashwant Sinha
26. Shri Mahendra Mohan
27. Shri Mangani Lal Mandal
28. Shri C. Ramachandraiah
- **29. Shri Vijay J. Darda
- ***30. Shri S. Anbalagan
- @31. Vacant

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu — *Additional Secretary*
2. Shri P.K. Grover — *Joint Secretary*
3. Shri S.B. Arora — *Deputy Secretary*
4. Shri T.G. Chandrasekhar — *Deputy Secretary*

**Nominated to this Committee *w.e.f.* 14.12.2006

***Nominated to this Committee *w.e.f.* 23.4.2007 *vice* Shri S.P.M. Syed Khan

@Due to demise of Shri Chittabrata Majumdar *w.e.f.* 22.02.2007

INTRODUCTION

I, the Chairman of the Standing Committee on Finance having been authorised by the Committee to submit the Report on their behalf, present this Fifty-fifth Report on Demands for Grants (2007-2008) of the Ministry of Company Affairs.

2. The Demands for Grants of the Ministry of Company Affairs were laid on the Table of the House on 20 March, 2007. Under Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha, the Standing Committee on Finance are required to consider the Demands for Grants of the Ministries/Departments under their jurisdiction and make Reports on the same to both the Houses of Parliament.

3. The Committee took oral evidence of the representatives of the Ministry of Company Affairs at their sittings held on 3 and 17 April, 2007 in connection with examination of the Demands for Grants (2007-08) of the Ministry of Company Affairs.

4. The Committee considered and adopted the draft Report at their sitting held on 26 April, 2007.

5. The Committee wish to express their thanks to the officers of the Ministry of Company Affairs for the co-operation extended by them in furnishing written replies and for placing their considered views and perceptions before the Committee.

6. For facility of reference, the observations/recommendations of the Committee have been printed in thick type.

NEW DELHI;
26 April, 2007

6 Vaisakha, 1929 (Saka)

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

REPORT

INTRODUCTORY

The Ministry of Company Affairs was created as an independent Ministry in May, 2004. Prior to this, the Department of Company Affairs was attached to the Ministry of Finance. The Ministry is primarily concerned with administration of the Companies Act, 1956, other allied Acts and rules & regulations framed there-under mainly for regulating the functioning of the corporate sector in accordance with law. The Ministry is also responsible for administering the Competition Act, 2002 which will eventually replace the Monopolies and Restrictive Trade Practices Act, 1969 under which the Monopolies and Restrictive Trade Practices Commission (MRTPC) is functioning. Besides it exercises supervision over the three professional bodies, namely, Institute of Chartered Accountants of India (ICAI), Institute of Company Secretaries of India (ICSI) and the Institute of Cost and Works Accountants of India (ICWAI) which are constituted under three separate Acts of the Parliament for proper and orderly growth of the professions concerned. The Ministry also has the responsibility of carrying out the functions of the Central Government relating to administration of Partnership Act, 1932, the Companies (Donations to National Funds) Act, 1951 and Societies Registration Act, 1980.

2. Statement indicating the Budget Estimates, Revised Estimates and Actuals for 2004-2005, 2005-2006 and 2006-2007 in respect of the demands is as follows:—

(Rs. in crores)

Sub-Heads	Ministry of Company Affairs Budget Section								
	2004-05			2005-06			2006-07		
	BE	RE	AE	BE	RE	AE	BE	RE	AE(*)
1	2	3	4	5	6	7	8	9	10
Salaries	28.34	29.99	29.59	30.68	31.18	31.31	33.50	37.54	32.23

1	2	3	4	5	6	7	8	9	10
Wages	0.00	0.00	0.00	0.00	0.12	0.05	0.12	0.09	0.04
OTA	0.10	0.07	0.08	0.08	0.11	0.11	0.10	0.11	0.09
Medical Treatment	0.00	0.00	0.00	0.90	0.40	0.45	0.50	0.70	0.47
Travel Expenses (Domestic)	1.13	1.28	0.80	1.23	1.50	1.27	1.40	1.37	0.92
Travel Exp. (Forgien)	0.29	0.20	0.16	0.29	0.20	0.11	0.25	0.25	0.09
Office Expenses	7.47	9.02	8.88	7.96	9.50	9.35	13.00	13.00	7.16
Rents Rates & Taxes	4.43	4.43	2.91	4.63	4.28	6.03	5.00	6.65	3.47
Publication	0.05	0.04	0.01	0.04	0.10	0.02	0.06	0.06	0.04
Banking Cash Transaction Tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Administrative Exp.	0.03	0.06	0.03	0.06	0.10	0.07	0.10	0.10	0.08
Advertising & Publicity	0.00	0.00	0.00	0.00	1.50	0.09	1.00	0.50	0.00
Professional Service	2.29	0.89	0.30	1.00	0.59	0.64	0.57	0.63	0.32
Grants in Aid	0.00	0.00	0.00	0.00	1.25	0.00	0.50	0.01	0.02
Contribution	1.26	0.86	0.01	1.26	0.01	0.00	0.02	0.01	0.01
IEPF	3.00	3.00	1.69	2.50	3.00	1.92	5.00	5.00	1.66
Grants in Aid (CCI)	5.08	1.06	1.39	2.70	1.50	1.33	3.00	3.00	1.38
Modernisation & CN	1.00	1.00	0.00	60.00	28.13	16.70	70.84	39.15	4.51

	1	2	3	4	5	6	7	8	9	10
Secret Service Exp.	0.03	0.03	0.01	0.04	0.03	0.03	0.04	0.03	0.03	0.02
Capital	3.00	2.70	0.43	2.90	6.50	5.70	10.00	36.80	4.98	
Total	57.50	54.63	46.29	116.27	90.00	75.18	145.00	145.00	57.49	

(*) upto February 2007

BE – Budget Estimates, RE – Revised Estimates,
AE – Actual Expenditure

3. The budget of the Ministry of Company Affairs (2007-08) provides for the expenditure on the Secretariat of the Ministry of Company Affairs, twenty offices of the Registrars of Companies, sixteen Offices at Official Liquidators and four Offices of Regional directors and also for expenditure on offices of Monopolies and Restrictive Trade Practices Commission, Director General of Investigation & Registration, Company Law Board, Competition Commission of India, Serious Fraud Investigation Office, the National Company Law Tribunal & Indian Institute of Corporate Affairs. The total Budget Demand for the year 2007-2008 amounts to Rs. 201.00 crore out of which Rs.146.00 crores is under the Revenue Expenditure and Rs. 55.00 crores under the Capital Expenditure as follows:-

(In thousands of rupees)

Section	S. No.	Office	Budget Estimates	
			2007-08	2007-08
Plan/Non-Plan Revenue			Plan	Non plan
1	2	3	4	5
	1.	Headquarters		138790
	2.	Registrar of Companies		223490
	3.	Regional Directors		62336

1	2	3	4	5
	4.	Official Liquidators		84154
	5.	Monopolies & Restrictive Trade Practices Commission		32450
	6.	Director General of Investigation and Registration		13170
	7.	Company Law Board		19450
	8.	Grants-in-aid to Recreation Club		110
	9.	Grants-in-aid (Competition Commission of India)		50000
	10.	Contributions		150
	11.	Investors Education and Protection Fund		50000
	12.	Modernization, Computerization and Networking of Department of Company Affairs and its field offices		642760
	13.	Serious Fraud Investigation Office		31790
	14.	National Company Law Tribunal		41350
	15.	Indian Institute of Corporate Affairs (IICA)	70000	0
Capital	16.	Purchase of Land/building/ construction of office premises/ Residential accommodation for staff	400000	150000
Total			470000	1540000

4. The break up of the budget demands under Revenue and Capital Sections has been furnished by the Ministry of Company Affairs as under:

“Revenue Section

Plan

Planning Commission has recently sanctioned Rs. 7 crores to Indian Institute of Corporate Affairs (IICA) under Eleventh Five Year Plan to establish the Indian Institute of Corporate Affairs (IICA) to provide policy research and knowledge support to the Ministry on an on-going basis and serve as a think tank and implementation arm for the initiatives of the Ministry. The IICA would develop a strong institutional network with national and international institutions besides providing support for capacity building on the officials of the Ministry.

Non-Plan

The budget of the Ministry of Company Affairs is largely establishment-oriented. Out of the Non-Plan Budget about 29% of the budget is for salaries, 46.24% for Computerization (MCA 21), 9.35% for office expenses, 4.09% for rents, 3.59% is for Investor Education and Protection Fund, 3.59% for Grants-in-aid (CCI), 1.26% for Travel Expenses, 0.53% for Professional Services, 0.57% for Medical Expenses and the balance 1.78% is for Serious Fraud Investigation Office, National Company Law Tribunal and small sub-heads like OTA, publication, and hospitality, etc.

Capital Section

For the purpose of purchase of land/building/construction of office premises/residential accommodation for staff, a sum of Rs. 15.00 crores has been provided under Non-Plan Scheme. Planning Commission has provided Rs. 40 crores in Capital Section of this Ministry under Plan Scheme in the Eleventh Five Year Plan.”

REVENUE RECEIPTS

5. Under the Companies Act, 1956, fees are realized from the companies under various heads such as for registration of companies, for filing of returns/documents by companies and for making applications etc. There are also receipts by way of costs awarded by

courts in prosecution cases under the Companies Act. Thus, Ministry of Company Affairs is a revenue-earning Ministry. Revenue earned by the Ministry of Company Affairs during 2006-2007 amounts to Rs. 715.45 (up to Dec. 06) crore as against Rs. 728.21 crore earned during the year 2005-2006.

Review of the Report on Demands for Grants (2006-07)

6. The Committee in their 40th Report on the examination of the Demands for Grants (2005-06) of the Ministry of Company Affairs (presented on 22.05.2006) had examined the following issues related to the overall performance of the Ministry:—

- (i) Comprehensive revision of the Companies Act, 1956
- (ii) Functioning of the Serious Fraud Investigation Office
- (iii) Vanishing Companies
- (vi) Utilisation of the accruals to Investor Education and Protection Fund
- (v) Liquidation of Companies

7. The Report contained fifteen recommendations. Action Taken Notes were received from the Government with regard to all the recommendations contained in the Report on Demands for Grants (2006-07).

8. In the present report, the Committee have examined following issues arising out of the Budget Proposals (2006-08) and other related matters:-

- (i) Comprehensive revision of the Companies Act, 1956
- (ii) Vanishing Companies
- (iii) Exit of companies
- (iv) Utilization of accruals to Investor Education and Protection Fund
- (v) Vacancies in the Company Law Board (CLB)
- (vi) Demands for Grants — Modernization, Computerization and Networking — Other Charges
- (vii) Demands for Grants — IEPF
- (viii) Demands for Grants — Grants-in-Aid

1. COMPREHENSIVE REVISION OF THE COMPANIES ACT, 1956

9. It has been decided to take up comprehensive revision of Companies Act, 1956 in order to bring the law in tune with the changing requirements. The exercise was started with the preparation of the Concept Paper and its dissemination on the website of the Ministry to seek public comment, followed by constitution of an Expert Group headed by Dr. J.J. Irani and consisting of representatives from corporate, industry bodies and professionals. Pursuant to the recommendations of Dr. J.J. Irani Committee and wide ranging consultations with different groups of stakeholders, the drafting of a new Bill is in process.

10. In this regard, the Committee had recommended in their 5th Report on Demands for Grants (2004-05) of the Ministry of Company Affairs, which reads:-

“The Committee do appreciate the endeavour of the Government to take up the exercise for developing the concept paper for comprehensive overhaul of the Companies Act, 1956. They are given to understand that the said concept paper has been circulated to all the interested parties e.g. corporates, regulatory bodies, stakeholders and autonomous professional institutions. They want that adequate publicity may also be made through print and electronic media so that public at large may also involve themselves in the exercise and make suggestions. The Committee expect that the exercise would be completed in a fixed time and Government will come forward with a new look Companies Bill which meets the requirements of all concerned without any delay.”

11. The Government, had in their “action taken reply”, stated that a concept paper on Company Law was placed on the Ministry website and a large number of responses had been received. Detailed consultations were being held with various industry associations, professional bodies etc. On the basis of consensus achieved through this process, a revised Companies Bill would be drafted. It is expected that the preparation of a new, revised Companies Bill would be possible by the first quarter of Financial Year 2006-07.

12. In reply to a query whether the ministry is likely to come out with the comprehensively revised version of the Companies law, the Ministry had *inter alia* replied during the course of examination of Demands for Grants 2006-07 as under:-

“...With requisite approvals and proper vetting by the Legislative Department, a new companies bill would be prepared for introduction in the Parliament. Efforts are being made to introduce the above in the Parliament as early as possible.”

13. In their 40th Report on Demands for Grants 2006-07, the Committee while referring to the above reply of the Government had *inter-alia* observed:-

“From the response of the Government, they gather the impression that the Comprehensive Bill amending provisions of Companies Act may be Tabled on the floor of the House shortly. They expect that this long awaited piece of legislation will soon see the light of the day and many provisions of the Companies Act needing reforms, as per the requirements of modern day corporate governance practices as well as investors protection, may be amended suitably.”

14. When asked to furnish the present status of the draft Bill on Companies Act, 1956, the Ministry have replied as below:-

“The Companies Act, 1956 is a complex and voluminous piece of legislation dealing with the regulation of companies from their incorporation to winding up and liquidation. The legislative changes required, need to be carefully examined and evaluated for inclusion after due examination by experts. The proposals also have to be legally sustainable. Hence, this exercise is time consuming. However, a draft of the Companies Bill is now being prepared with legislative vetting, for requisite approvals prior to its introduction in the Parliament.”

15. During the oral evidence, the Secretary, Ministry of Company Affairs stated as below in this regard:-

“Coming to other things like the new law, we have practically finalized the things, It has taken time. You are aware that this has been tried for three times. We went for a very wide consultation process starting with the concept paper, then the Irani Committee Report, etc., This is the biggest piece of legislation in the country”.

16. During the oral evidence, it was specifically pointed out that the Ministry has been unable to come out with a comprehensive amendment Bill during the period of four years. In this regard, the Ministry of Company Affairs, have in a written reply stated as under:-

“The comprehensive revision of the Companies Act is being carried out through a detailed consultative process. As a first step in the process, a Concept Paper on Company Law, drawn up in the legislative format, was placed on the Ministry’s website on August 04, 2004 for public view so that all interested stakeholders may not only express their opinions on the concepts involved but may also suggest formulations on various aspects of Company Law. Comments and suggestions from a large number of organizations, professional bodies and individuals were received. The Government felt it appropriate that the proposals contained in the Concept Paper and suggestions received thereon be put to merit evaluation by an independent Expert Committee. Therefore, a Committee was constituted on 2nd December, 2004 under the chairmanship of Dr. J.J. Irani, Director, Tata Sons, with the task of advising the Government on the proposed revisions to the Companies Act, 1956. The Committee submitted its report on 31st May, 2005.

Taking into consideration the recommendations contained in the report of Dr. J.J. Irani Committee and other inputs received by the Ministry, a formal consultation was taken up with various Ministries/Departments for their suggestions/comments. Number of suggestions and objections were received. Taking these comments in view, a revised draft on Companies Bill was prepared in the legislative form and sent to the Legislative Department for vetting. Currently, the Legislative Department is vetting the same. Once the Bill is finalized it shall be introduced in the Parliament after obtaining requisite approvals.”

17. In regard to the Comprehensive revision of the Companies Act, 1956, the Outcome Budget, 2007-08 of the Ministry *inter-alia* states as under:-

“The process of a comprehensive revision in the Companies, Act, 1956 has been taken up following a wide consultative process with

a view to providing a legal framework for the corporate sector which is not only easy to understand and implement but also responsive to a dynamic process of change so as to enable the Indian corporate sector remain competitive in the international business scenario. It is proposed to finalize the Draft Bill and introduce the same in the FY 2007-08.”

18. A need has been felt for quite some time for updation and revision of the Companies Act, 1956 to meet the requirements of the current times. In fact the Ministry has initiated steps for a comprehensive revision of the Companies Act, 1956, involving a wide consultative process with a view to providing a legal framework for the corporate sector which is not only easy to understand and implement but also responsive to a dynamic process of change. The Committee, however, note that despite the repeated emphasis laid by them on the urgency of the matter and the assurance given by the Government to this end, the Ministry is yet to come up with the revised Companies Bill.

19. As the initial step towards the process of comprehensive revision of the Companies Act, the Government had put up a Concept Paper on Company Law on their official website. The proposals contained in the Concept paper and the suggestions received thereon were evaluated by J.J. Irani Committee which submitted its report on 31st May, 2005, that is nearly two years back. The Committee note from the information furnished on the current status of the revision of the Companies Act, 1956, that the recommendations contained in the Irani Committee Report as well as other inputs received by the Ministry have been considered and a revised draft on Companies Bill sent to the Legislative Department for vetting. Once the Bill is finalized, it is expected to be introduced in Parliament after obtaining requisite approvals. The Outcome Budget 2007-08 of the Ministry reveals that it is proposed to finalize the Draft Bill and introduce the same in Parliament in the Financial year, 2007-08. The Ministry, being well aware of the urgency of the Bill, the Committee strongly recommend that the process of finalizing the Bill be expedited and the same introduced in Parliament in this Financial Year.

2. VANISHING COMPANIES

(a) Concept of Vanishing Companies

20. The concept of vanishing companies relates to those companies that vanish after mobilizing funds from the capital/securities markets through public issues. To a query as to how many companies have been identified as 'vanishing' as on date, along with the aggregate value of shares offered in their public issues, the Ministry have in a written reply stated as under:-

"229 companies were originally identified as Vanishing Companies out of which 115 companies have been traced back. At present 114 companies stand identified as vanishing companies with issue size of approximately Rs. 799.31 crore."

21. Elaborating this aspect, the Secretary, Ministry of Company Affairs, during the course of oral evidence *inter-alia* deposited before the Committee as under:-

"As regards vanishing companies, originally 229 companies have been identified involving an approximate amount of Rs. 1349.31 crore. Out of these, 115 companies have been traced and brought under the watch list. The amount involved in all these is Rs. 550 crores and this leaves a balance of 114 companies involving an amount of Rs. 799.31 crores."

22. The criteria applicable for identifying the vanishing companies as informed by the Ministry in a written reply, are as follows:-

- (a) Companies, which have not complied with listing requirements/filing requirements of Stock Exchange/ROC respectively for a period of 2 years.
- (b) No correspondence has been received by the Exchange from the company for a long time.

- (c) No office of the company is located at the mentioned registered office address at the time of Stock Exchange inspection.

One of the criteria "no correspondence has been received by the Stock Exchange from the company for long time" has been amended by CMC by substituting "a period of two years" in place of "long time" for identifying the company as a Vanishing Company."

23. As regards the mechanism of tracing out the vanishing companies, the Ministry have in reply to a query stated as under:-

"A Coordination and Monitoring Committee (CMC), co-chaired by Secretary, Ministry of Company Affairs (MCA) and Chairman, SEBI was set up in March, 1999 to settle the policy issues regarding the delinquent companies/promoters and to monitor the progress in regard to action against vanishing companies. The CMC also has representatives from the Reserve Bank of India and the Director, Department of Economic Affairs has also been recently inducted on the CMC as a representative of Ministry of Finance. It is clear from the above that all the economic agencies concerned in this matter have been associated on the CMC.

The CMC is assisted by four Task Forces, one each corresponding to a Region, falling under the jurisdiction of four Regional Directors of Ministry of Company Affairs (MCA). Other members of these Task Forces are representatives of SEBI, Regional Stock Exchange and concerned Registrars of Companies."

24. To a query whether any major input/information has been provided by the Task Forces in the recent times, the Ministry, have, in a written reply stated as under:-

"The main responsibility of these Task Forces is to identify the companies which have disappeared, or which have misutilised funds mobilised from the investors, to suggest/take appropriate action in terms of Companies, Act or SEBI Act or any other law

applicable, and monitor the action initiated in different cases. The Task Forces are presently in the process of identification of companies that mobilized public funds during the period 1998-2001 and are not traceable. This exercise is expected to be completed within next six months.

25. Supplementing this aspect, the Secretary, Ministry of Company Affairs has deposed before the Committee as under:-

“In all these 114 companies, action that has been taken is as follows. Prosecutions have been launched for non-filing of statutory returns against 94 companies. In addition, prosecutions have been launched under the Companies Act against 107 companies and their promoters and directors. FIRs have been registered under 95 of them. Some petitions have been filed under the CLB also. This action is taken and we have gone to the next period. This was for 1992-98 and now we are examining the Companies IPOs of 1998-2001 where a certain number of companies have been identified”...

“...Once 2001 is complete, we will do 2001-2004”

(b) Criteria for identification of vanishing companies

26. The Committee had in their 49th Action Taken Report on Demands for Grants (2006-07) of the Ministry of Company Affairs recommended that the criteria for identifying a company as “vanishing” should be modified/revised so that a company failing to satisfy any one of the three conditions could be treated as a “Vanishing Company”. Asked as to whether the recommendation of the Committee has been implemented, the Ministry have, in a reply stated as under:-

“The recommendations made by the Standing Committee and the concerns articulated therein have been taken up for examination afresh, in consultation with SEBI. However, legal ramifications also need to be kept in view since it may not be appropriate to classify a company as ‘Vanishing’ if knowledge of its operations is otherwise available with the regulatory agencies.”

27. Since the first criterion casts an obligation upon the companies to comply with certain statutory requirements, and the third criterion involves an inspection of the companies, only the second criterion is in the nature of a non-obligatory activity on part of the companies.

28. In response to a viewpoint expressed that a company may send a piece of correspondence to the stock exchange within a period of two years and manage to hoodwink the system, whereas in reality, the office of the company may not exist at the address registered, the Ministry, in their written reply, *inter-alia* stated as under:—

“The recommendations made by the Standing Committee on Finance as also contained in the Paras 6, 7 & 8 in its 49th Report have been taken up for examination afresh, in consultation with SEBI, keeping in view the legal ramifications also. The same will be placed before the CMC on Vanishing Companies in its next meeting scheduled to be held on 23.4.2007 at 11.00 AM in the Chamber of Secretary, Ministry of Company Affairs. The Hon’ble Committee would be apprised of the progress made in this direction as also the decisions taken, in due course.”

(c) Intimation of change of address by companies

29. It was recommended by the committee in their 32nd Action Taken Report on Demands for Grants (2005-06) of the Ministry of Company Affairs that ‘it is essential to keep a strict tab on companies by ensuring their whereabouts as well as by ascertaining the details of the promoters/Directors at the stage of registration itself. Punitive action be taken against those companies which do not intimate changes in address etc., within the stipulated time frame of 30 days’.

30. Asked whether there have been any instances of promoters/directors of companies not intimating change in address within thirty days, the Ministry have in a written reply stated thus:—

“There have been instances of non-compliance on this account. The companies are required to intimate the Registered Office address

of the company or any change therein within a period of 30 days under section 146 of the Act through filing of Form-18. However, the Registrar of Companies comes to know about the change in address and compliance by the companies in this respect only when the company files this information with the Registrar or when such a changed address is indicated in the Annual Return required to be filed statutorily every year. Under the system of physical filing of documents, it is not feasible to manually cross-check and compare the addresses of all the companies from the Annual Returns with the address intimated earlier on account of staff and resource constraints. However, with the progressive implementation of MCA21 project, this would be possible to be checked electronically. To facilitate this, a proposal to require the companies to provide their electronic address along with the Registered Office address is under consideration of the Ministry. This may also need an amendment in the Act itself. It is felt that detection of non-compliance on this account would be far more effective with the availability of the electronic address once the electronic Registry under MCA21 is operational with validated data.”

31. Asked to furnish the number of such non-compliant cases, the Ministry have replied as under:—

“As stated earlier, the fact of change in the Registered Office Address of a company can be known only under three circumstances *i.e.* (i) the company files information to that effect, (ii) the Registered Office Address indicated by the company in the Annual Return is different from the address in the data base of the Registry, and (iii) a communication sent to the company is received back undelivered which would cause for an investigation into the matter. As of now, about 3.14 lakh companies have filed their Annual Returns during 2006-07 and a cross-verification is possible only in respect of these companies. In addition to the legal action taken in respect of vanishing companies and companies to whom legal notices/summons could not be served, the details of

cases filed in Courts u/s 146 during the three years 2003-06 are as follows:—

Cases filed u/s 146 :

Sl.No.	Year	No. of cases filed
1.	2003-04	23
2.	2004-05	40
3.	2005-06	35

32. When questioned whether the Ministry did not have the means or resources to even verify the Annual Returns or the addresses mentioned therein, the Ministry in a written reply stated as under:—

“Under the system of filing of documents in the physical mode, due to the large numbers involved, difficulties were faced in cross-verification of the particulars of registered office mentioned in various documents filed by the companies. Action is being taken to cross-verify these details with the implementation of MCA-21 e-Governance Project. However, it may be appreciated that the ‘Address’ being a text field, the slightest of variation between the particulars entered in the database and those in the Annual Returns now being filed, would get captured in the exception list. This may not necessarily be a change in the address. Validation of data in respect of major fields of the particulars of companies, including the address field, is a massive exercise. Hence, a detailed action plan is under way to validate the Master Company Data fields through a 100% check in respect of all companies during 2007-08.”

33. As per the Outcome Budget, there are about 8.00 lakh companies on various Registries as of now. At another place, it has been stated that only 3.14 lakh companies have filed the Annual Returns during 2006-07 and the Ministry can cross-verify the particulars only in respect of these companies. When asked as to the action has been taken against the companies which have not filed the Annual Returns, the Ministry have, *inter-alia* in their written reply stated as under:—

“Separately, in case of persistent default in respect of filing of documents prosecution is filed against a company under Sections

159 & 220 of the Companies Act, 1956. Number of cases filed under these provisions during the last three years are given in the table below. In pursuance of the Simplified Exit Schemes (SES), 2003 & 2005, the names of 49,616 number of companies had already been ordered to be struck off, out of a total of 56,807 applications filed. In addition, nearly 1,37,000 companies, as had not filed their documents during the last three years, have been taken up for scrutiny by the ROCs in exercise of the powers under section 560 of the Act.

Year	Cases filed for offences relating to Annual Return under section 159/162/220
2003-04	5157
2004-05	6920
2005-06	4500

34. Under Sections 159 and 160 of the Companies Act, 1956, the companies are required to file their Annual Returns. Section 162 of the Companies Act, 1956 dealing with Penalty and Interpretation reads as under:-

- (1) If a company fails to comply with any of the provisions contained in section 159, 160 or 161 the company, and every officer of the company who is in default, shall be punishable with fine which may extend to fifty rupees for every day during which the default continues.
- (2) For the purposes of this section and sections 159, 160 or 161 the expressions "officer" and "director" shall include any person in accordance with whose directions or instructions the Board of directors of the company is accustomed to act.

(d) Random Scrutiny of filings by companies

35. Asked as to whether there is any system of random scrutiny of filing of details by corporates/companies by the registration authorities/Registrars of Companies, the Ministry have replied:-

"Yes, there is a system of carrying out technical scrutiny of documents filed by the companies. However, the ROCs have not

been able to carry out this function largely on account of paucity of staff, resources and training requirements. Now with the restructuring of the offices of the ROCs with the progressive implementation of MCA-21, as well as sanction of additional staff, it would be possible to carry out such scrutiny more effectively. As per the prescribed procedure, upon detection of any violation during the technical scrutiny, the ROC is required to seek information and in the absence of the same, issue notices to the defaulting company and follow up the same with prosecutions before the Courts, if necessary. The ROC is not competent under the Act to levy any penalty at his level. However, the existing arrangement under the Act which allows ROC to avail information from a company is to be seen in context of enforcement problems that could arise if prosecution is resorted in the first report. For instance, for non-filing of annual statutory returns and Balance Sheets during the current year, the ROCs may be required to file more than 30 lakh prosecution cases (in each case against the company and each one of the Directors) which is extremely difficult given the availability of resources in the Ministry. This may also lead to congestion in the Courts. It has also been observed that the fines levied in the prosecution cases are much lower than the costs involved in filing prosecutions and pursuing the same till their closure.”

(e) Inter-agency Coordination

36. As regards inter-agency coordination, the Ministry have, in a written reply given a brief introduction as under:-

“A Monitoring Committee (MC) was set up in August, 2004 for closely monitoring the progress in investigation of all cases in which FIRs were filed/registered under the Indian Penal Code against vanishing companies and their Directors as this function was under control of the State Police authorities. To facilitate such action senior level officers (Home Secretaries/senior officers of Police looking after investigation of economic offences) from the State Governments were associated in this Committee. The State Governments have nominated Nodal Officers for effective coordination with the Registrar of Companies in this respect.

This mechanism has been helpful as the State Police authorities became active in investigation of these cases. As they required association/evidence of certain individuals/organizations to whom wrongful laws had been caused by these vanishing companies during the process of investigations, the Ministry published the details of all these companies and their promoters and directors in various leading newspapers calling upon the aggrieved persons to extend help to the Police officers in furthering their investigation.”

37. However, when asked whether there was a need to strengthen inter-agency coordination in order to trace vanishing companies, the Ministry have been categorical in stating that no further need was felt to strengthen the inter-agency coordination in this respect.

38. During the course of oral evidence of the representatives of Ministry, when asked whether there was any system of ‘online real time exchange of information’ for communication among SEBI, the Ministry and other agencies in regard to vanishing companies, the Secretary replied in the negative.

39. Asked *inter-alia* about the mechanism of co-ordination, two regulators, namely, the MCA and the SEBI, the Ministry have in a written reply stated as under:–

“In so far as the legal framework or corporate regulation is concerned, the same is done through the Companies Act, 1956 which is implemented by the Ministry of Company Affairs in exercise of the sovereign function and discharge of the responsibility of the State under the Act. SEBI, on the other hand, is a capital market regulator under the administrative control of the Ministry of Finance having distinct responsibilities in regulation of the conduct of intermediaries in the capital market and interaction between entities seeking to raise and invest in capital. On issues that are common in regulation of companies, consultations take place between the relevant Ministries as also between MCA and SEBI. In addition, Secretary, Company Affairs is also a Member on the Board of SEBI.”

(f) Identification of Vanishing Companies

40. During the oral evidence, it was asked as to how the vanishing companies were identified. The Ministry, in a post-evidence reply, stated as under:-

“The Capital Market had witnessed a boom period during 1993-94 and 1994-95 when many new companies tapped the capital market and collected funds from the public through public issue of shares/debentures. Some of these companies defaulted in their commitments made to the public while mobilizing funds. SEBI had identified 229 companies by October, 2000, which came out with IPOs during the period 1992-1998, as vanishing.”

41. During the oral evidence, it was commented that five years had elapsed since the Ministry issued instructions to all the Regional Directors in 2002. In this regard, the Ministry have, in a subsequently written reply, furnished as under:-

“Out of the 229 companies earlier identified as vanished, the CMC, in its meetings held on 25.02.2003, 15.01.2004, 23.11.2004 and 18.03.2005 deleted the names of 44, 63, 7 and 1 companies respectively from the list of vanishing companies, as these companies were traced back and found to be filing statutory returns and also were found to be outside the criteria adopted for terming a company as vanishing, resulting in the number of vanishing companies reduced to 114. The latest position in State-wise action taken against 114 Vanishing Companies and their Promoters/Directors is given below:

State	Number of companies	Number of companies against which prosecution filed under Sections 62/63, 68 & 628 of the Companies Act, 1956	Number of companies against which prosecutions launched for non-filing of statutory returns	Number of companies where FIRs have been filed/registered under IPC.	
				Total FIRs filed	FIRs Registered
1	2	3	4	5	6
Bihar	4	4	4	4	4

1	2	3	4	5	6
Orissa	2	2	1	2	2
West Bengal	8	5	6	8	7
Delhi	7	7	6	6	6
Punjab & UT of Chandigarh	5	5	5	5	4
Uttar Pradesh	5	5	5	5	5
Andhra Pradesh	16	15	9	15	15
Karnataka	4	2	2	3	—
Tamil Nadu	14	14	9	9	9
Gujarat	32	31	30	29	27
Madhya Pradesh	5	5	5	5	5
Maharashtra	12	12	12	11	11
Total	114	107	94	102	95

42. For the ten major vanishing companies about which the Ministry came to know in the year 2000, the Ministry took action in the year 2002. Asked as to why it had taken approximately two years to initiate action, the Ministry have, in a written reply stated as under:-

“The Ministry issued instructions to all the Regional Directors on 13.3.2002 and 1.4.2002 respectively to launch prosecutions under Section 62, 63, 68 & 628 of the Companies Act, 1956 for misstatement in prospectus and for fraudulently inducing persons to invest money and for making misstatement etc. against all such vanishing companies and its Promoters/Directors. It took sometime to verify the antecedents of these companies, check their filing status, their addresses of Registered Offices before actual action could be initiated. Further, it also took some time in determining the action to be taken under various provisions of the relevant laws,

framing of a model FIR to be filed under the IPC etc. which led to initiation of action in the year 2002.”

43. Asked as to how much money has been disgorged from the delinquent/vanishing companies, the Ministry have, in a written reply stated as under:-

“The Central Government can file a petition before the CLB under provisions of section 388(B) read with section 397/398/406/408 of the Companies Act, 1956, seeking disgorgement of assets against any person who knowingly is a party to carrying on the business by the company in a fraudulent manner. He shall be personally liable without any limitation of any liability of all the debts and liability of the company. Recently, the Central Government has filed the aforesaid petition before the CLB. Similarly when company is in liquidation, the Official liquidator attached to the High Court concerned can file petition for misfeasance which is similar to the disgorgement petition and seeks relief against the individuals responsible for the fraudulent conduct of business. Filing of misfeasance petitions by the O.L. is an on-going exercise in respect of companies in Liquidation.

Petitions have been filed with the Company Law Board (CLB) under Sections 397/398/402/408 read with Section 406 of the Companies Act, 1956 in respect of two Vanishing Companies to disgorge the properties/monies from the Promoters/Directors of these two Vanishing Companies. Only two companies were selected for this purpose as a trial case. The Company Law Board has dismissed the Petition in case of M/s. Nuline Glassware (India) Ltd. (presently known as M/s. Pur Opale Creations Ltd.). The Ministry has filed an appeal against the orders of CLB before the Gujarat High Court. The other case of M/s. AVI Industries Ltd. is pending for adjudication by the Company Law Board.

SFIO has filed two cases where disgorgement of assets of the respondents including directors of M/s Bonaza Biotech Limited and M/s Design Auto System Limited have been sought in the petition

filed under section 388(B)/397/398/406/408 of the Companies Act, 1956.”

Further, it has been stated as under :—

“The disgorged money so obtained consequent upon the orders of the CLB shall be distributed amongst the person(s) appealed as per the order of the Court. Till date, no final orders have been received in disgorgement applications filed before CLB/Courts.”

44. When asked about the steps that have been taken by the Ministry to identify the vanishing companies post 1998, the Ministry have, in a written reply, *inter-alia* stated as under:—

“The Process of identification of vanishing companies is an on-going process and currently, the exercise for the period 1998-2001 has been taken in hand. The exercise of identification of such companies which went in for Public Issues during this period is nearing completion. The Ministry proposes to continue with this exercise and the period 2001-2004 would be taken up after completion of the exercise for 1998-2001.”

45. The Committee note that the present list of vanishing companies pertains to the period 1992-1998. The Task Forces of the Ministry entrusted with the main responsibility of identifying the companies which disappeared, are presently engaged in the process of locating the companies that mobilized public funds during the period 1998-2001 and are not traceable. Although, the exercise of identification of such companies which went in for public issues during this period is stated to be nearing completion, it appears to the Committee that not a single company that may have vanished after 1998 has been identified till date which is indeed disappointing. The Committee, therefore feel the need for addressing the issue with due seriousness and planning. The Committee are also not satisfied with the contention of the Government that identification of such companies for the period 2001-04 will be taken up subsequently. They are of the opinion that the period of identification of vanishing companies should be extended up to 2005.

46. The Committee Further take note of the fact that presently there is no system of 'real time online exchange of information' between various agencies and the Ministry which are entrusted with the task of identification of vanishing companies and tracing them. The Committee are of the view that, in the present day times, it would be essential for the Ministry, SEBI and other agencies to have an effective mechanism of 'online real time exchange of factual information' which would *inter-alia* enable in identification of vanishing companies and their promoters and bringing them to book. They, therefore, recommend that this feature be included as a part of the MCA-21 e-governance project.

47. The Committee observe from the information furnished that there have been instances of non-compliance with the statutory requirement of intimation of change in address of a company within the stipulated time frame of 30 days. As per the practice prevalent, the Registrar of Companies (ROCs) become aware of change in the address of a company only when the company files this information with the Registrar or it is so indicated in the Annual Returns which are statutorily required to be filed every year. What the Committee find to be worrisome to note in this regard, is the fact that the ROCs do not have the means to check/cross-check the veracity of the address of a company, as may be furnished in the Annual Returns. The Committee, therefore, recommend for evolving a viable mechanism for solving this problem.

48. The Committee further observe from the information furnished that of the nearly eight lakh companies registered with the Government, only about 3.14 lakh companies have filed their Annual Returns which is contrary to Sections 159, 160 and 161 of the Companies Act, 1956. Further, the non-filing of such returns attracts a penalty of upto Rs. 500 per day on every defaulting officer of the company. However, only a meagre number of cases have been filed in this regard *viz.* 5157 in 2003-2004, 6920 in 2004-05 and 4500 in 2005-06. The Committee recommend that strict measures should be taken by Government to put an end to this blatant violation of law.

49. In this regard, the Committee take note of the submission of the Government that enforcement related problems such as shortage of staff are a major hindrance in pursuing prosecution cases on account of non-filing of Annual Returns and balance sheets of companies. In the circumstances, the Committee feel it to be essential to initiate and pursue prosecution proceedings atleast against such of the companies observed to be repeatedly failing in filing the Annual Returns, which would serve as an effective deterrent for others.

50. The Committee take note of the fact that very little has been done in regard to prosecuting/discharging the assets of the 115 vanishing companies that have reportedly been traced back. The Committee emphasise on giving adequate attention to not only tracing vanishing companies but also prosecuting such companies as have been traced back so as to enable in compensating the duped investors. The Committee also reiterate the need for taking special care at the time of registration of a company to assess its veracity and potential viability to function in the competitive environment of the capital market.

51. With regard to the definition of vanishing companies per se, the Committee recall that in their 49th Action Taken Report on Demands for Grants (2006-07) of the Ministry of Company Affairs, they had recommended that the criteria for identifying a company as "vanishing" should be modified/revised so that a company failing to satisfy even one of the three conditions stipulated, could be treated as a "vanishing company" i.e.:—

- (a) Companies, which have not complied with listing requirements/filing requirements of Stock Exchange/ROC respectively for a period of 2 years.
- (b) No correspondence has been received by the Exchange from the company for a long time.
- (c) No office of the company is located at the mentioned registered office address at the time of Stock Exchange inspection.

52. While the first of the criteria stipulated casts an obligation on the companies to comply with certain statutory requirements, and the third involves inspection of the companies, only the second criterion is of the nature of a non-obligatory activity on part of the companies. It would, possibly be very easy for a company to send a cursory communication to the stock exchange once in two years, but in reality be a 'fictional' or 'dubious company'. The Committee, therefore, reiterate their earlier recommendation that the criteria for identifying a company as vanishing needs streamlining and the government should revise the definition so that any company, which does not fulfil even one of the pre-set criteria is deemed to be categorised as a 'vanishing company'.

3. EXIT OF COMPANIES

53. In order to enable the process of winding up to be completed in a time bound manner, the Companies Act, 1956 has been amended by Companies (Second Amendment) Act, 2002, whereby provisions have been made for establishing an institutional structure in the form of National Company Law Tribunal (NCLT)/ National Company Law Appellate Tribunal (NCLAT) to handle, *inter-alia*, winding up of companies. The Tribunal is authorized to appoint the official liquidators who may be appointed from a panel of professionals prepared by the Central Government for aid of the Tribunal. The professionals who may thus be empanelled are Chartered Accountants, Advocates, Company Secretaries and Cost and Works Accountants as firms or even as individuals practising in a trade name. However, a firm constituted by these professionals may also be empanelled by the Central Government. The Tribunal will also have power to transfer the work assigned from one official liquidator to another official liquidator after recording in writing the reasons for the transfer. The Tribunal can also remove any official liquidator on sufficient cause being shown by any of the parties concerned with the winding-up.

54. Further, for any professional misconduct noticed or shown to the Tribunal, the Tribunal can proceed for professional misconduct. The constitution of NCLT/NCLAT, however, has been held up due to a legal challenge and the matter is pending in the Hon'ble Supreme Court of India and the provisions mentioned above are yet to be notified.

55. Asked to furnish the details of the present status of the proposal relating to NCLT/NCLAT, the Ministry of Company Affairs have in a written reply stated as under:—

“The Companies (Second Amendment) Act, 2002 provides for setting up of a National Company Law Tribunal (NCLT) and National Company Law Appellate Tribunal (NCLAT) that will replace the jurisdiction of the existing Company Law Board (CLB) in respect of all matters presently being dealt with by it, the Board

for Industrial and Financial Reconstruction (BIFR) and the High Courts in respect of winding up/liquidation of companies. The Amendment Act received the assent of the President on 13th January, 2003.

Sections 2 & 6 of the Companies (Second Amendment) Act, 2002 have already been notified and were given effect from 1st April, 2003 so as to enable the Government to initiate steps to set up NCLT and NCLAT. However, there were legal challenges through a writ petition filed in the Madras High Court on the constitutional validity of this Amendment Act.

The Madras High Court delivered its judgement on the writ petition 30th March, 2004. In its judgement the Hon'ble Court while upholding the constitutional validity of the said amendment as a whole but held certain provisions of the said amendment to be defective as being in breach of basic constitutional scheme of separation of powers and independence of judicial functions. The Hon'ble Court directed that operation of the Companies (Second Amendment) Act be stayed till the position is rectified in this regard. Union of India has filed a special leave petition in the Supreme Court on 6th May, 2004 which was allowed by the Hon'ble Supreme Court. The respondent also filed the counter affidavit in July, 2004.

On the basis of certain suggestions received from learned Attorney General for India, after examination of the judgement of the Madras High Court, the Government filed an additional affidavit on 12th October, 2004 submitting that the Government would consider certain modifications/amendments in the provisions of the Amendment Act to meet certain observations of the Madras High Court.

The Madras Bar Association filed a SLP (Civil) separately against the portion of the judgement dated 30.3.2004 of the Madras High Court which upheld the validity of the constitution of NCLT and NCLAT. Both the SLPs filed by the Union of India and the Madras Bar Association are being taken together for disposal."

56. Elaborating on the Madras High Court ruling, the Ministry of Company Affairs have thus replied:—

“In its ruling dated 30.3.2004 on the WP No. 2198 of 2003 filed by the Madras Bar Association challenging the constitutional validity of the Companies (Second Amendment) Act, 2002, Hon’ble Madras High Court while upholding the constitutional validity of the above Act as a whole, has held certain provisions of the said Act to be defective as being in breach of the basic constitutional scheme of separation of powers and independence of the judicial functions. The Hon’ble Court further goes on to say that unless the defects pointed out by it are remedied through amendments, it would be unconstitutional to constitute the NCLT and NCLAT as envisaged under the Act.”

57. In their 49th Action Taken Report, the Committee had recommended that the Government should in the extant legal provisions, strive to work in such a time bound manner so that, excluding the time taken for obtaining the approval of the High Court, all other formalities in respect of exit or liquidation of companies are completed within a period of 2-3 years.

58. Asked whether the Government has prepared such a roadmap, the Government have, in a written reply stated as under:—

“The process of liquidation under the Companies Act, 1956 is carried out through the High Courts, which follow the Companies (Court) Rules, 1959. All the actions by the Official Liquidators are taken with the approval of the High Courts. In such matters, no action is required to be taken by the Central Government as it is a Court determined process which takes place as per orders of the Hon’ble Court. As such, no road map can be prepared by the Central Government for this purpose.”

59. Asked whether the Ministry was thinking in terms of any solution to this problem, they have *inter-alia* in their reply stated as under:—

“The NCLT/NCLAT could not be constituted and operationalized due to ruling of Madras High Court made in

April, 2004. The Hon'ble Madras High Court directed certain changes in the structure as approved in the legislation and imposed a stay on further action on the enactment. The Central Government has appealed against the ruling in an SLP filed before the Supreme Court with the prayer to vacate the stay. The stay has not yet been vacated. Presently, hearings on the matter are continuing before the Supreme Court. Once the ruling of the Apex Court is available, further action on setting up of the proposed Tribunal to implementation of the Companies (Second Amendment) Act, 2002 would be taken. Further, the issue of simplification of the process of exit for companies with 'Nil' Balance Sheets is also contemplated to be proposed in the new Companies Act."

60. Detailing the mechanism and manner of hosting a particular company for liquidation, the Ministry have, in a written reply stated as under:—

- “(i) As per provision of Section 433 of the Companies Act, 1956 a petition on the following grounds may be filed before the High Court for winding up of a company:
- (a) If the Company has, by special resolution, resolved that the company be wound up by the Court;
 - (b) If default is made in delivering the statutory report to the Registrar or in holding the statutory meeting;
 - (c) if the Company does not commence its business within a year from its incorporation, or suspends its business for a whole year;
 - (d) if the number of members is reduced, in the case of a public company, below seven, and in the case of a private company, below two;
 - (e) if the Company is unable to pay its debts;
 - (f) if the Court is of opinion that is just and equitable that the company should be wound up;

However, this has been further amended by the Companies (Second Amendment) Act, 2002 and three more grounds have been added in it *viz*:

- (g) if the company has made a default in filing with the Registrar its balance sheet and profit and loss account or annual return for any five consecutive financial years;
- (h) if the company has acted against the interests of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality;
- (i) if the Tribunal is of the opinion that the company should be wound up under the circumstances specified in section 424G.

However, the provisions of Companies (Second Amendment) Act, 2002 have not yet been brought into force as the same has been challenged in the Court and the matter is *sub-judice* in the Hon'ble Supreme Court of India."

61. Asked to furnish the number of companies enlisted for liquidation and actually liquidated during the last five years, the Ministry have, in a written reply stated as under:—

"The number of companies enlisted for liquidation and the number of companies liquidated during the last five years are as under:

During the year ending	Number of companies in liquidation	Number of companies enlisted for liquidation	Number of companies liquidated
31.03.2002	5357	489	134
31.03.2003	5712	95	80
31.03.2004	6027	309	77
31.03.2005	6259	464	279
31.03.2006	6444	237*	81*

*from 01.04.2006 to 31.12.2006"

62. from the above, it was clear that with this rate of companies being liquidated, the pending applications for liquidation will go on increasing. Asked whether the Ministry is planning to take any immediate steps to remedy the situation, the Ministry have *inter-alia* in their reply furnished as under:—

“In the meantime, efforts are being made to enable improvements in the administrative function in the offices of Official Liquidators, attached to the respective High Courts. These include measures for improved record maintenance, provision of staff, equipment such as computers etc.”

63. **The central concern of the Committee as expressed in their earlier reports was on evolving an effective procedure for exit of companies stated for liquidation. Though the Committee had emphasized on evolving an effective mechanism for enabling exit or liquidation of companies within a time frame of 2-3 years, the Government has tried to clear itself of all delays in this respect by *inter-alia* stating that ‘all the actions by the official liquidators are taken with the approval of the High Courts’. The Committee, are constrained to note the rise in number of pending cases enlisted for liquidation. The total number of companies in the process of liquidation has steadily increased from 5357 in 2002 to 6444 in 2006. While the Ministry of Company Affairs has initiated the process of setting up the National Company Law Tribunal/National Company Law Appellate Tribunal, which would *inter-alia* enable in easy and early liquidation of companies, the proposal is yet to materialize owing to legal challenges. An effective system of liquidation of companies being an important pre-requisite of a sound financial system, the Committee expect the Government to initiate and pursue appropriate steps to have the stay on the setting up of the NCLT/ NCLAT vacated at the earliest. The Committee also recommend for incorporating appropriate provisions in the revised Companies Law Bill to enable easy and effective liquidation of companies. The Committee also desire that till such time as the setting up of NCLT/ NCLAT comes through, the Government should formulate and come out with special schemes such as the ‘simplified exit scheme’ of the past, which would enable in easy exit of the companies seeking liquidation.**

4. UTILISATION OF ACCRUALS TO INVESTOR EDUCATION AND PROTECTION FUND

64. Investor Education and Protection Fund (IEPF) has been established *w.e.f.* 01.10.2001 under Section 205C of the Companies Act, 1956 by way of Companies (Amendment) Act, 1999 for promotion of investors' awareness and protection of the interests of investors. According to section 205C(2) of the Act, the companies are required to credit the following amounts to the Fund that have remained unclaimed and unpaid for a period of seven years from the dates they became due for payment:—

- (a) Amounts in the unpaid dividend accounts of companies;
- (b) Application moneys received by companies for allotment of any securities and due for refund;
- (c) Matured deposits with companies;
- (d) Matured debentures with companies;
- (e) Interest accrued on the amounts referred to in clauses (a) to (d);
- (f) Grants and donations given to the Fund by the Central Government, State Governments, companies or any other institutions for the purposes of the Fund; and
- (g) Interest or other income received out of the investments made from the Fund;

65. Section 205C (4) of the Companies Act, 1956, read with Rule 7 of the IEPF Rules 2001, provides for constitution of the Committee on IEPF to administer the Fund. The Committee consists of eleven members. Secretary, Ministry of Company Affairs is Chairman of the Committee. The members are representatives of Reserve Bank of India,

Securities Exchange Board of India, and experts from the field of investors' education and protection. Section 205C (5) provides that the Committee so constituted shall be competent to spend money out of the Fund for carrying out the objects for which the fund has been established. Accordingly, a Committee on IEPF has been reconstituted *vide* notification No. SO No. 368 (E) dated 21.03.2006 for a period of two years.

66. The Committee is entitled to examine the end use of grants and assistance before recommending release of funds. The Committee may also appoint one or more Sub-Committees whenever it considers necessary to facilitate efficient and speedy discharge of its functions. Accordingly, a Sub-Committee has been constituted by the Committee on IEPF amongst the members of the Committee.

67. In response to a query, the Committee were informed that the amount of grant/financial support from the Fund to the NGOs/individuals/groups during the last three years for organizing seminars/workshops, creation of website, publication of investors booklet etc. has been as follows:—

Year	Amount
2003-04	63,62,500
2003-05	76,74,273.60
2003-06	86,54,798

68. Asked to furnish the criteria of funding NGOs/VOs etc. the Ministry have in a written reply further stated as under:—

“Each case is considered on merits in accordance with the provisions of Investor Education and Protection Fund (awareness and protection of investors) Rules, 2001. Indian Institute of Capital Markets has been engaged by the Committee on IEPF to conduct pre-sanction and post-sanction scrutiny of the applicant associations seeking registration/financial assistance under IEPF.

The IICM has evolved a criteria for pre-sanction scrutiny. The proposals received from various organisations are scrutinized on the basis of following criteria:—

- (a) Review on the basis of material provided in the proposal
 - Viability of the project
 - Reasonableness of grant
 - Capability of the organization to undertake the project
- (b) Review on the basis of material not provided in the proposal;
 - Genuineness and capability of the organization by arranging personal visits and conducting local inquiry.”

69. Asked to state whether Indian Institute of Capital Markets (IICMs) has been engaged by the Ministry of Company Affairs to conduct pre-sanction scrutiny of proposals submitted by associations etc., the Ministry have, in a written reply stated as under:—

“Yes, Sir. The Indian Institute of Capital Markets (IICMs) has been engaged by the Ministry of Company Affairs to provide following services:

- (i) to conduct pre-sanction scrutiny of proposals submitted by the investor associations etc. for registration and financial assistance under IEPF;
- (ii) to conduct post-sanction scrutiny of the financial assistance provided to investor associations under IEPF.
- (iii) to conduct ‘Training of Trainers’ programmes under the capacity building programme for training the representatives of NGOs/ Voluntary Organizations registered under IEPF and also for those organisations whose registration is pending under IEPF.

The activities of IICM are being monitored by the Committee/ Sub-Committee on IEPF, which also consists of representatives of Reserve Bank of India, Securities Exchange Board of India,

and experts from the field of investors' education and protection. There are eleven members in the Committee on IEPF out of which only two are from the Ministry and all others are independent and experts in their respective fields."

70. In response to a written query about whether the Ministry of Company Affairs is planning to introduce representation from investors group in the Committee on IEPF in the new Company Law, they have *inter-alia* replied as Under:—

"The provisions of Rule 7 of the IEPF Rules 2001 provide for the constitution of the Committee on IEPF. It states that the Committee shall consist of eleven members. Accordingly, a Committee has been constituted under IEPF *vide* SO No. 368 (E) dated 21.03.2006. Secretary, Ministry of Company Affairs is Chairman of the Committee. The official members are Financial Advisor, MCA, representatives of Reserve Bank of India and Securities Exchange Board of India, and seven experts from the field of investors' education and protection.

71. An Investor Education and Protection Fund has been established *w.e.f.* October, 2001 for promoting of investors awareness and protection of the interests of investors. A Committee on IEPF administers the Fund. The Committee note that the Indian Institute of Capital Market (IICM) has been engaged by the Government to scrutinize the applications of associations seeking registration/ financial assistance under IEPF. The Committee on IEPF which also monitors the activities of IICM comprises of representatives of RBI, SEBI and experts from the field of investors' education and protection. The grants/financial support to NGOs/individuals/group has been Rs.6362500, Rs.7674273.60 and Rs.8654798 during 2003-04, 2004-05 and 2005-06 respectively for organizing seminars/workshops, creation of website, publication of investors booklet etc. In this regard, the Committee are of the view that for providing more credence to the system of utilization, disbursement and scrutiny of funds allotted under IEPF, it would be appropriate to broad base the composition of the Committee on IEPF by providing place therein

for the representatives of registered investors' associations. They, therefore, recommend that the IEPF Rules 2001 be suitably modified so as to make provision for co-option of representatives of registered and known investors' associations on the monitoring Committee of IEPF.

72. The Committee further note from the information furnished that the activities of the associations taking grants under IEPF are largely confined mainly to organizing seminars/workshops, which may not suffice in promoting awareness on aspects relating to investment in the corporate sector. They, therefore, recommend that regular and sustained media campaigns through electronic and print media, including the vernacular media, be launched for creating awareness among the existing as well as potential investors. They are also of the view that concerted efforts need to be made for promoting financial literacy, which would enable the investors to select the potential companies for investing and be well versed with the pros and cons and nuances of investing in the corporate sector.

5. COMPANY LAW BOARD

73. The Companies (Amendment) Act, 1988, provided for setting up of an independent Company Law Board, a quasi-judicial body, to which some of the powers of the Central Government and the Courts have been conferred under the statute. Some of the powers earlier exercised by the Courts/Central Government and subsequently conferred on the Company Law Board are under Section 111 (appeal against refusal of transfer of shares and rectification of register of Members), 113 (extending the period for issue of debentures), 235-248 (investigation of affairs of companies), 250 (imposition of restriction upon shares and transfer thereof), 269 (Contravention relating to appointment of managerial personnel), 408 (appointment of Government Directors), 397-398 (oppression and mismanagement), 621-A (compounding of offences) etc.

74. Established with effect from May 31, 1991, the Company Law Board exercises its powers through its Principal Bench located at New Delhi and Regional Benches located at four metropolitan cities at Delhi, Mumbai, Kolkata and Chennai. Powers statutorily conferred on the Company Law Board under the Companies Act, and Section 45QA of the RBI Act, 1934 have been assigned to these Benches. The administrative machinery available to the Company Law Board consists of Company Law Board Secretariat at New Delhi with Secretary (CLB) and supporting officers and staff, besides Bench Officers and supporting staff at the Principal and Regional Benches. Apart from the supporting staff, it consists of one Chairman, one Vice-Chairman and one Member at present.

75. Asked to furnish year-wise details of the vacancies in the CLB in all cadres, the Ministry in a written reply stated as under:—

“There are a total number of 9 posts sanctioned for Members, including the Chairman and Vice-Chairman of the

Company Law Board. The number of Members (including the Chairman & Vice-Chairman) in position since 1991 has been as under:

Sr. No.	Year	No. of Members in position	No. of vacancies of Members
1.	2000	5	4
2.	2001	5	4
3.	2002	4	5
4.	2003	3	6
5.	2004	3	6
6.	2005	5	4
7.	2006	4	5

It may be submitted that the process for filling up two posts of Members has already been initiated with the issue of an advertisement inviting applications for the same. The number of vacancies in the Company Law Board in all cadres during the last two years is as under:—

Sr. No.	Name of the Post	2005	2006
1.	Members (including Chairman & Vice-Chairman)	4	5
2.	Bench Officer	1	1
3.	Private Secretary	4	5
4.	PA (Rs.5500-9000)	1	1
5.	Sr. Legal Assistant	2	2
6.	Sr. Technical Assistant	1	1
7.	Jr. Legal Assistant	2	2
8.	Lower Division Clerk	—	—
9.	Daftry	1	1

76. When asked as to why action has been initiated to fill up only 2 vacancies in CLB, the Ministry have, in a written reply stated as under:—

“Though the number of sanctioned posts of members, including the Chairman and the Vice-chairman in the Company law Board, is nine, never before there have been more than 6 members in position in the CLB since its establishment in the year 1991. There is a Principal Bench of the CLB at Delhi and a total of four Regional Benches at the four metro locations. The Chairman of the CLB himself is on record to say that there would be no need to fill-up more than 5 positions in all for the present. The two vacancies have been notified to take timely action to fill-up the posts against future vacancies. As the CLB is in a transitional phase with the NCLT/ NCLAT envisaged to be set-up, the Government is of the view that only so many of the posts should be filled-up as are required as a minimum functional requirement. It is keeping these circumstances in view that the process of filling-up only two posts have been initiated at this juncture.”

77. To a query about the pendency of applications in the CLB, the Ministry in a written reply stated as under:—

“Details of matters pending before the CLB are given in the following three tables:

Statement of Petitions/Applications received, disposed off and pending for the period w.e.f. 01.04.2004 to 31.03.2005 (Table-1)

Composition of Bench	Opening Balance	Receipts	Total (2+3)	Dispo- sed off	Pending (4+5)	% of pending Applications
1	2	3	4	5	6	7
Principal Bench	246	453	699	476	223	31.9
Addl. Principal Bench	100	64	164	58	106	64.63
Northern Bench	537	1316	1853	1276	577	31.13

1	2	3	4	5	6	7
Eastern Bench	216	911	1127	992	135	11.97
Western Bench	327	2222	2549	1804	745	29.22
Southern Bench	755	1748	2503	2319	184	7.35
Total	2181	6714	8895	6925	1970	22.14

Statement of Petitions/Applications received, disposed off and pending for the period w.e.f. 01.04.2005 to 31.03.2006 (Table-2)

Composition of Bench	Opening Balance	Receipts	Total (2+3)	Dispo- sed off	Pending (4+5)	% of pending Applications
Principal Bench	223	499	722	451	271	37.53
Addl. Principal Bench	106	95	201	54	147	73.13
Northern Bench	577	1350	1927	1222	705	36.58
Eastern Bench	135	727	862	756	106	12.29
Western Bench	745	1470	2215	1436	779	35.16
Southern Bench	184	1447	1631	1456	175	10.72
Total	1970	5588	7558	5375	2183	28.88

Statement of Petitions/Applications received, disposed off and pending for the period w.e.f. 01.04.2006 to 31.12.2006 (Table-3)

Composition of Bench	Opening Balance	Receipts	Total (2+3)	Dispo- sed off	Pending (4+5)	% of pending Applications
1	2	3	4	5	6	7
Principal Bench	271	476	747	448	299	40.02

1	2	3	4	5	6	7
Addl. Principal Bench	147	54	201	40	161	80.09
Northern Bench	705	843	1548	762	786	50.77
Eastern Bench	106	484	590	464	126	21.35
Western Bench	779	1055	1834	1144	690	37.62
Southern Bench	175	861	1036	922	114	11
Total	2183	3773	5956	3780	2176	36.53

The Company Law Board (CLB) is a quasi-judicial body exercising statutory powers. As such, the Ministry's role is limited only to the selection and appointment of Members.

It may be mentioned that as per the Second (Amendment) Act, 2002, the jurisdiction over matters dealt with by the CLB is to be transferred to National Company Law Tribunal (NCLT) and CLB is to be wound up. However, due to a legal challenge to the provisions of the Amendment Act relating to the setting up of NCLT, it has not been possible to operationalise the NCLT/NCLAT. The matter is being pursued in the Supreme Court."

78. From the above, it was observed that the number of applications being disposed off is decreasing. Asked to state the reasons for this declining trend in disposing off the cases, it was replied by their Ministry as under:—

"The decrease in disposal pertaining to the year 2005-06 and 2006-07 as compared to the year 2004-05 was on account of non-availability of Members in the Regions particularly Eastern Region and Northern Region (for sometime) and absence of required number of staff as against increased workload. The figure of 3780 for 2006-07 pertains to the period ending 31st December, 2006

(9 months) only which cannot be compared with the figures of the other previous years. As soon as the new Members will be available, significant increase in disposal is expected.”

79. In one of the replies of the Ministry, it has been stated that there is no need for more than 4-5 Members of the CLB. Further, in another replies, it has been stated that the disposal rate is expected to increase with the induction of two new Members. Asked as to how does the Ministry reconcile these contradictory statements, the Ministry of Company Affairs, in their written replies stated as under:

“Presently, the CLB has a total of four Members in position including the Chairman and the Vice-Chairman. There is no Member posted in the Kolkata Regional Bench and the Chairman is looking after the work of this Bench in addition to the work of the Principal Bench at Delhi. The process for selection of two more Members has been initiated with a view to ensure that each Bench has a Member available for disposal of work.

There have never been more than six Members in position in the CLB since its inception. This would be borne out from the details given in the replies to the General List of Points under Point No. 3. On the one hand, there is need to ensure that the work is not allowed to suffer and there is no institutional vacuum, on the other, it has to be kept in view that the CLB is envisaged to be wound up upon operationalisation of the NCLT/NCLAT and there is no provision for the continuity of the Members of the CLB on to the NCLT. Therefore, the Government has initiated the process of filling up of two posts in order to maintain a balanced position under the present circumstances.”

80. The Committee are dismayed to note that despite of the increasing pendency of applications/petitions referred to Company Law Board and despite being aware of the fact that non-availability of Members in the Company Law Board is hampering its efficiency, the Government have initiated steps to fill up only two of the five vacant posts on the Board. The Committee do not agree with the

approach of the Government in trying to maintain a minimum functional arrangement which is not in the interest of speedy disposal of petitions/applications. The Committee are of the view that the transitory period to the setting up of the NCLT/NCLAT which has been delayed owing to legal challenges should not be treated in a cursory manner by the Government, as it would only result in piling up of petitions/applications as is evident from the data made available to the Committee. For instance, the percentage of pending petitions/applications before the Benches rose from 28.8% during the period 01.04.2005 to 31.03.2006 to 36.53% during the period, 01.4.2006 to 31.12.2006. They, therefore, recommend that all the vacant posts in the Company Law Board be filled up in order to facilitate speedy disposal of pending cases.

6. DEMAND No. 16

Ministry of Company Affairs

Sub Head : Modernisation & CN - Other Charges

(Rs. in thousands)

Year	BE		RE		Actuals	
	Plan	Non-Plan	Plan	Non-Plan	Plan	Non-Plan
2004-05	—	10,000	—	10,000	—	0
2005-06	—	6,00,000	—	2,81,310	—	1,66,958
2006-07	—	7,08,370	—	3,91,500	—	43,030*
2007-08	—	6,42,760	—	—	—	—

* Upto December, 2006

81. Explaining the Head, the Ministry have in a written reply stated as under:—

“The Ministry constituted a Committee consisting of officers from the Ministry and the NIC on 21.05.2001 to consider and recommend ways and means to enhance efficiency and move towards electronic corporate governance. The Committee worked out detailed requirements and recommended for creation of a modern workflow infrastructure with integration of information technology based solution. Accepting the recommendations of the Committee, the Ministry initiated work on the programme ‘Modernisation & Computerisation of Ministry of Company Affairs (MCA) and its field offices’. A separate Object Head 05.99.50 titled ‘Modernisation, Computerisation & Networking – Other Charges’ was created to meet the expenditure on this account.”

82. Asked to furnish the reasons for huge difference between RE and Actuals for the last two years and non-utilisation of funds in

2004-05, the Ministry of Company Affairs in a written reply stated as under:—

“The MCA21 e-Governance Project was under various stages of Government of India’s approval during the FY 2004-05. The Committee on Non-Plan Expenditure (CNE) approved the project on 06.12.2004 and the Cabinet Committee on Economic Affairs (CCEA) accorded its approval on 02.02.2005. Thereafter, the contract was signed with the selected Operator i.e. M/s TCS Ltd. on 01.03.2005. It was for this reason that a budget provision of Rs.1.00 crore had to be made for 2004-05 to meet any initial funding requirements on this account, but no expenditure could be incurred as the approval and contract execution extended up to March, 2005*.”

83. To a query as to why unrealistic Budget Estimates are being set up every year, the Ministry have, in a written reply stated as follows:—

“The project comprises of two phases i.e. ‘Implementation Phase’ followed by an ‘Operations Phase’ to continue for a period of six years on completion of the Implementation Phase. As per the original schedule, the Implementation Phase was to be completed over a period of 60 weeks i.e. by April 24, 2006. However, the project was rolled-out at 12 out of 25 locations by the end of April, 2006. Further launch at other locations was put on hold for system

* The Ministry have, in their factual verification suggested to add the following paragraphs:—

“An amount of Rs. 28.1310 crore and Rs. 39.1500 crore was provided in RE 2005-06 and RE 2006-07 respectively for meeting the expenditure requirements on the MCA21 project. The RE provision was made on the basis of mid-term review and anticipated completion of the project by the operator till end of March each year. The project could not be rolled out as per the original schedule i.e. by April, 24, 2006 as only 12 ROC locations were covered by the end of April 2006 when it was decided to put the further roll-out on hold on account of need for system improvement and stability based on learnings derived from the launched sites. The roll-out was finally completed at all the locations by September 4, 2006.

Strictly following the terms of payment as provided under the Contract/ Agreement with the operator, an amount of Rs.16.55 crore (not Rs. 16.6958 crore as mentioned in the table), which qualified for payment, was released in the FY 2005-06 and an amount of Rs. 29.1220 crore is proposed to be released in the FY 2006-07.”

improvement based on learnings from the launched sites and in view of the stakeholder requirement of education and awareness. Thereafter, the project was launched in a phased manner and the nation-wide roll-out was completed across all the Offices of 20 Registrars of Companies as on September 4, 2006. Though there has been some delay in completion of the implementation phase, it has no financial implications on the Government as it is a fixed price contract. The budget provisions had to be made taking into account the anticipated achievement of milestones but the actual release depends on the completion of those milestones. Though the project was functional at all the locations and e-filing was mandated from September 16, 2006, there were a few work items which were yet to be completed and certified to merit release of payments to the Operator. The project completion phase could be provisionally certified only on January 17, 2007. The Operations Phase of the Project for a period of six years is to commence from this date. Thus, any delay caused in the process of completion of the remaining work items and the certification thereof is to the Operator's account."

84. As regards actuals for 2006-07, the Ministry have stated that an amount of Rs. 29.12 crore is expected to be utilized under this Object Head by the close of the current Financial Year. While an expenditure of Rs. 4.25 crore was incurred during the mid-year, as for the balance, the payments have been processed and approved for release and the bills are under preparation for making payment to the Operator.

85. The Committee are surprised to note that year after year unrealistic Budget Estimates are being projected under the Head, Modernisation, Computerisation and Networking — Other Charges. Though the actual utilization of the budgeted amount for 2006-07 was only Rs. 29.12 crore, the Ministry has proposed an allocation of Rs. 64.27 crore as Budget estimates during this year. The Committee are concerned to note that there has been some delay in the implementation phase of the project under Modernisation and Computerisation of Ministry of Company affairs and its field offices, namely MCA-21. The Committee desire that the Ministry should

furnish a report to them within a month regarding the reasons, impact, persons responsible for the delay in the implementation of MCA-21 project and the action taken thereon. The Committee are also not happy to find that even though the Budget Estimates were downsized sharply while revising them, the actual expenditure incurred since 2004-05 has not matched even the Revised Estimates. The actual expenditure during 2004-05, 2005-06 and 2006-07 was Nil, Rs. 16.55 crore and Rs. 29.12 crore as against the RE and Rs. 1 crore, Rs. 28.13 crore and Rs. 39.15 crore respectively, during three years. This is indicative of lack of prudent budget planning. They, therefore, recommend that the budgetary exercise is executed in such a way that realistic proposals are made and allocated sums utilized productively.

7. DEMAND No. 16

Ministry of Company Affairs

Sub Head : Investors Education and Protection Fund

(Rs. in thousands)

Year	BE		RE		Actuals	
	Plan	Non-Plan	Plan	Non-Plan	Plan	Non-Plan
2004-05	—	30,000	—	30,000	—	16,939
2005-06	—	25,000	—	30,000	—	19,245
2006-07	—	50,000	—	50,000	—	5344*
2007-08	—	50,000	—	—	—	—

*Upto December, 2006

86. Asked as to why till December, 2006 merely 10% of the amount has been spent, the Ministry have, in a written reply stated as under:—

“Sanctions for an amount of Rs.1,75,03,357, constituting 35% of the approved budget, towards financial assistance were given till December 31, 2006. The amount sanctioned for financial assistance is less than what it should have been for the reason that adequate number of quality proposals seeking financial assistance were not received from investor associations/voluntary organizations.”

87. Asked to furnish the amount of money collected under IEPF so far, category-wise as well as the budgetary allocation for the last five years, the Ministry have, in response to the above stated as under:—

“As per information received from various Registrars of Companies, an amount of Rs. 419,16,01,593 has been credited to

the Head of Account specified in Rule 4 of the Investor Education and Protection Fund (awareness & protection of investors) Rules, 2001 as on 31.03.2006 maintained in the Consolidated Fund of India. The details are not being maintained category-wise as a single head of account has been allocated for receipts under IEPF. The amounts so credited in IEPF for the last five years are as follows:—

Amounts Credited in IEPF

Financial Year	Amount in Rupees	Cumulative Total
2001-2002 (from 1.10.2001)	29,05,18,844.22	29,05,18,844.22
2002-2003	108,69,29,558.18	137,74,48,402.40
2003-2004	103,85,02,945.05	241,59,51,347.45
2004-2005	124,43,30,796.51	366,02,82,143.96
2005-2006	53,13,19,449	419,16,01,593

The details of the budget and the expenditure incurred during the last five years are as under:

Financial Year	Budget	Expenditure
2001-2002	57,00,000	67,00,000
2002-2003	3,02,00,000	1,79,40,000
2003-2004	3,00,00,000	2,83,55,000
2004-2005	3,00,00,000	1,63,37,684
2005-2006	3,00,00,000	1,93,30,279

88. In their Outcome Budget 2007-08, the Ministry have detailed the Annual Programme regarding Investor Education and Protection in a tabular format as under:—

Investor Education and Protection

Name of the scheme/ programme	Objective/ Outcome	Budget outlay 2007-08	Quantifiable/ deliverables/ physical outputs	Projected outcome	Processes/ timelines	Remarks/risk factors
Investor Education and Protection	Increased awareness about capital market operations	5.00 cr.	Organising 50 seminars/ programmes on investor education through associations registered under IEPF Conducting six 'Training of Trainers' Programmes Media campaigns through electronic and print medium to create investor awareness Engagement of a professional agency	To educate the investors about the IPOs, capital market instruments and mutual funds Capacity Building of the NGOs/VOs	March, 2008 March, 2008 March, 2008	Receipt of sufficient number of viable proposals Nomination of suitable persons by the NGOs/VOs for attending these programmes Receipt of sufficient number of offers from competent agencies

89. Responding to a query on under-utilisation of funds, the Secretary, Ministry of Company Affairs, during the oral evidence stated as under:—

“The cumulative total is Rs. 419.16 crore. One of the tasks we have given to this Expert Group (professional agency referred to above) is that with this kind of money available and with these kinds of tasks which need to be done, why we are not able to utilize this Fund fully. Why are we spending only as little as Rs. 2 crore, Rs. 3 crore or Rs. 4 crore in a year. So, this is the task, and we are at it. We have taken note of the guidance given.”

90. **The Committee note that for the year 2004-05 and 2005-06, the expenditure incurred under the Head “Investor Education and Protection Fund (IEPF)” was about half of what was sought as non-plan Budget Estimates and Revised Estimates. The Committee are also surprised to find that since December, 2006 only 10% of the amount sanctioned was spent. The reason, as advanced by the Ministry, for the underspending is that adequate number of quality proposals seeking financial assistance were not received from investor associations/voluntary organizations. The Committee observe that though the amount earmarked for the purpose of providing assistance under IEPF is large, the Ministry has not been coming up with appropriate proposals for its proper utilization, with the result that the amounts are underutilized. It is common knowledge that bereft of the right kind of knowledge and awareness, scores of investors are being duped at the hands of promoters and directors of delinquent companies. The Committee, therefore, recommend that the Ministry should endeavour to utilize the funds allocated under IEPF objectively and appropriately so as to facilitate in promoting investors’ awareness on a large scale.**

8. DEMAND No. 16

Ministry of Company Affairs

Sub Head : Grants-in-Aid

(Rs. in thousands)

Year	BE		RE		Actuals	
	Plan	Non-Plan	Plan	Non-Plan	Plan	Non-Plan ³
2004-05	0	10	0	10	0	0
2005-06	0	10	0	12,530	0	0
2006-07	0	5030	0	110	0	0*
2007-08	0	110	—	—	—	—

* Upto December, 2006

91. The Ministry have, in a written reply explained the Head as under:—

“This object head is meant for giving grants to institutions, Recreation Clubs, contributions towards membership of international bodies/institutions etc. The criteria for providing grants is to ensure that the concerned institutions/international bodies strive to promote good corporate governance practices.”

92. Asked about the underutilization of fund in 2004, unrealistic revised estimates in 2005-06, non-utilisation in 2005-06, and wide gap between BE and RE in 2006-07, the Ministry of Company Affairs have, in a written reply stated as under:—

“The Ministry has set up a National Foundation for Corporate Governance (NFCG), as a not-for-profit Trust with an initial corpus of Rs.15.00 crore, in association with the Confederation of Indian Industries (CII), the institute of Chartered Accountants of India

(ICAI), the Institute of Company Secretaries of India (ICSI). As per the decision taken at that time, the MCA was required to contribute an amount of Rs.10.00 crore towards the corpus of the Trust, the CII was to contribute an amount of Rs. 3.00 crore and both the Institutes to contribute an amount of Rs. 1.00 crore each. However, the Ministry could release an amount of Rs. 8.75 crore only during the year 2003-04 towards its share, leaving an unpaid balance of Rs.1.25 crore. No contribution was paid during the year 2004-05. The balance amount of Rs.1.25 crore was paid during the year 2005-06 as against the BE of Rs.10,000. The excess amount was met by re-appropriation at the RE stage. For the year 2006-07, a Budget provision of Rs. 50.00 lakh was kept for making contributions to various institutions, for membership of international bodies/institutions (e.g. Insolvency International, OECD, GCGF, etc.) and an amount of Rs. 30,000 was kept for providing Grants-in-aid to the Recreation Clubs at Ministry Headquarters, Office of RD, Chennai, RD, Noida and OL, Chandigarh. The contributions for membership of international organizations has not matured during the current Financial Year. A decision has been taken that further contributions to the NFCG would be considered at an appropriate stage. Therefore, an amount of Rs.1.10 lakh only was retained under RE 2006-07. The expenditure likely to be incurred under this Object is only Rs.0.10 lakh during FY 2006-07.”

93. Explaining it further, the Ministry have stated as under:—

“The actual expenditure incurred during 2005-06 was Rs.1.2519 crore under this object. However, the matter regarding non-booking of this expenditure in the books of accounts is being referred to Chief Controller of Accounts (CCA) for doing the necessary correction.

It is necessary to keep some budget provision under this Head in order to enable expenditure on acquiring membership of international instructions/bodies who may be helpful in furtherance of objectives of this Ministry. Provision is also required to be made to provide Grants-in-aid to the Recreation Clubs which the functional. A very small amount of Rs.1.10 lakh has, therefore, been proposed under BE 2007-08.”

94. In their Outcome Budget, the Ministry have explained the functions of NFCG as under:—

“A National Foundation for Corporate Governance (NFCG) had been set up by this Ministry as a trust in partnership with Confederation of Indian Industry, Institute of Chartered Accountants of India and Institute of Companies Secretaries of India to provide a platform for deliberating issues relating to good corporate governance practices.”

95. The Committee note that the Actual Expenditure for the year 2005-06 under the Head ‘Grants-in-aid’ as indicated in the detailed Demands for Grants (2007-08) of Ministry of Company Affairs is nil. However, in their reply furnished to the Committee, the Government have stated that the actual expenditure incurred under the ‘Head’ during the year 2005-06 was Rs.1.2 crore approximately and the matter regarding non-booking of this expenditure in the books of accounts is being referred to Chief Controller of Accounts (CCA). This is indicative of lack of exercise of caution and care in furnishing figures of Demands for Grants, which needs to be avoided.

96. The Committee also note that the actual/likely expenditure of the Ministry of Company Affairs under the head Grants-in-aid has been less than the Budget Estimates for the last three years. They, therefore, recommend that, to the optimum extent possible, the budgetary exercise should be done in such a way that the allocated resources are spent during the year without large variation.

NEW DELHI;
28 April, 2007

8 Vaisakha, 1929 (Saka)

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

STATEMENT OF CONCLUSIONS/RECOMMENDATIONS OF THE
STANDING COMMITTEE ON FINANCE IN THE FIFTY-FIFTH
REPORT (2007-08)

Sl. No.	Para No.	Ministry/ Department Concerned	Conclusions/Recommendations
1	2	3	4
1.	18-19	Ministry of Company Affairs	<p>A need has been felt for quite some time for updation and revision of the Companies Act, 1956 to meet the requirements of the current times. In fact the Ministry has initiated steps for a comprehensive revision of the Companies Act, 1956, involving a wide consultative process with a view to providing a legal framework for the corporate sector which is not only easy to understand and implement but also responsive to a dynamic process of change. The Committee, however, note that despite the repeated emphasis laid by them on the urgency of the matter and the assurance given by the Government to this end, the Ministry is yet to come up with the revised Companies Bill.</p> <p>As the initial step towards the process of comprehensive revision of the Companies Act, the Government had put up a Concept Paper on Company Law on their official website. The proposals contained in the Concept paper and the suggestions received thereon were evaluated by J.J. Irani Committee which submitted its report on 31st May, 2005, that is nearly two years back. The Committee note from the information furnished on the current status of the revision of the Companies Act, 1956, that the recommendations contained in the</p>

1	2	3	4
			<p>Irani Committee Report as well as other inputs received by the Ministry have been considered and a revised draft on Companies Bill sent to the Legislative Department for vetting. Once the Bill is finalized, it is expected to be introduced in Parliament after obtaining requisite approvals. The Outcome Budget 2007-08 of the Ministry reveals that it is proposed to finalize the Draft Bill and introduce the same in Parliament in the Financial year, 2007-08. The Ministry, being well aware of the urgency of the Bill, the Committee strongly recommend that the process of finalizing the Bill be expedited and the same introduced in Parliament in this Financial Year.</p>
2.	45-52	Ministry of Company Affairs	<p>The Committee note that the present list of vanishing companies pertains to the period 1992-1998. The Task Forces of the Ministry entrusted with the main responsibility of identifying the companies which disappeared, are presently engaged in the process of locating the companies that mobilized public funds during the period 1998-2001 and are not traceable. Although, the exercise of identification of such companies which went in for public issues during this period is stated to be nearing completion, it appears to the Committee that not a single company that may have vanished after 1998 has been identified till date which is indeed disappointing. The Committee, therefore feel the need for addressing the issue with due seriousness and planning. The Committee are also not satisfied with the</p>

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contention of the Government that identification of such companies for the period 2001-04 will be taken up subsequently. They are of the opinion that the period of identification of vanishing companies should be extended up to 2005.

The Committee Further take note of the fact that presently there is no system of 'real time online exchange of information' between various agencies and the Ministry which are entrusted with the task of identification of vanishing companies and tracing them. The Committee are of the view that, in the present day times, it would be essential for the Ministry, SEBI and other agencies to have an effective mechanism of 'online real time exchange of factual information' which would *inter-alia* enable in identification of vanishing companies and their promoters and bringing them to book. They, therefore, recommend that this feature be included as a part of the MCA-21 e-governance project.

The Committee observe from the information furnished that there have been instances of non-compliance with the statutory requirement of intimation of change in address of a company within the stipulated time frame of 30 days. As per the practice prevalent, the Registrar of Companies (ROCs) become aware of change in the address of a company only when the company files this information with the Registrar or it is so indicated in the Annual Returns

which are statutorily required to be filed every year. What the Committee find to be worrisome to note in this regard, is the fact that the ROCs do not have the means to check/cross-check the veracity of the address of a company, as may be furnished in the Annual Returns. The Committee, therefore, recommend for evolving a viable mechanism for solving this problem.

The Committee further observe from the information furnished that of the nearly eight lakh companies registered with the Government, only about 3.14 lakh companies have filed their Annual Returns which is contrary to Sections 159, 160 and 161 of the Companies Act, 1956. Further, the non-filing of such returns attracts a penalty of upto Rs. 500 per day on every defaulting officer of the company. However, only a meagre number of cases have been filed in this regard *viz.* 5157 in 2003-2004, 6920 in 2004-05 and 4500 in 2005-06. The Committee recommend that strict measures should be taken by Government to put an end to this blatant violation of law.

In this regard, the Committee take note of the submission of the Government that enforcement related problems such as shortage of staff are a major hindrance in pursuing prosecution cases on account of non-filing of Annual Returns and balance sheets of companies. In the circumstances, the Committee feel it to be essential to initiate and pursue prosecution proceedings atleast

against such of the companies observed to be repeatedly failing in filing the Annual Returns, which would serve as an effective deterrent for others.

The Committee take note of the fact that very little has been done in regard to prosecuting/d disgorging the assets of the 115 vanishing companies that have reportedly been traced back. The Committee emphasise on giving adequate attention to not only tracing vanishing companies but also prosecuting such companies as have been traced back so as to enable in compensating the duped investors. The Committee also reiterate the need for taking special care at the time of registration of a company to assess its veracity and potential viability to function in the competitive environment of the capital market.

With regard to the definition of vanishing companies per se, the Committee recall that in their 49th Action Taken Report on Demands for Grants (2006-07) of the Ministry of Company Affairs, they had recommended that the criteria for identifying a company as "vanishing" should be modified/revised so that a company failing to satisfy even one of the three conditions stipulated, could be treated as a "vanishing company" i.e.:—

- (a) Companies, which have not complied with listing requirements/ filing requirements of Stock Exchange/ROC respectively for a period of 2 years.
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			<p>(b) No correspondence has been received by the Exchange from the company for a long time.</p> <p>(c) No office of the company is located at the mentioned registered office address at the time of Stock Exchange inspection.</p> <p>While the first of the criteria stipulated casts an obligation on the companies to comply with certain statutory requirements, and the third involves inspection of the companies, only the second criterion is of the nature of a non-obligatory activity on part of the companies. It would, possibly be very easy for a company to send a cursory communication to the stock exchange once in two years, but in reality be a 'fictional' or 'dubious company'. The Committee, therefore, reiterate their earlier recommendation that the criteria for identifying a company as vanishing needs streamlining and the government should revise the definition so that any company, which does not fulfil even one of the pre-set criteria is deemed to be categorised as a 'vanishing company'.</p>
3.	63	Ministry of Company Affairs	<p>The central concern of the Committee as expressed in their earlier reports was on evolving an effective procedure for exit of companies stated for liquidation. Though the Committee had emphasized on evolving an effective mechanism for enabling exit or liquidation of companies within a time frame of 2-3 years, the Government has tried to clear itself of all delays in this respect by <i>inter-alia</i> stating that 'all the</p>

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4.	71-72	Ministry of Company Affairs	<p>actions by the official liquidators are taken with the approval of the High Courts'. The Committee, are constrained to note the rise in number of pending cases enlisted for liquidation. The total number of companies in the process of liquidation has steadily increased from 5357 in 2002 to 6444 in 2006. While the Ministry of Company Affairs has initiated the process of setting up the National Company Law Tribunal/ National Company Law Appellate Tribunal, which would <i>inter-alia</i> enable in easy and early liquidation of companies, the proposal is yet to materialize owing to legal challenges. An effective system of liquidation of companies being an important prerequisite of a sound financial system, the Committee expect the Government to initiate and pursue appropriate steps to have the stay on the setting up of the NCLT/NCLAT vacated at the earliest. The Committee also recommend for incorporating appropriate provisions in the revised Companies Law Bill to enable easy and effective liquidation of companies. The Committee also desire that till such time as the setting up of NCLT/NCLAT comes through, the Government should formulate and come out with special schemes such as the 'simplified exit scheme' of the past, which would enable in easy exit of the companies seeking liquidation.</p> <p>An Investor Education and Protection Fund has been established <i>w.e.f.</i> October, 2001 for promoting of investors awareness and protection of the interests</p>

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of investors. A Committee on IEPF administers the Fund. The Committee note that the Indian Institute of Capital Market (IICM) has been engaged by the Government to scrutinize the applications of associations seeking registration/financial assistance under IEPF. The Committee on IEPF which also monitors the activities of IICM comprises of representatives of RBI, SEBI and experts from the field of investors' education and protection. The grants/financial support to NGOs/individuals/group has been Rs.6362500, Rs.7674273.60 and Rs.8654798 during 2003-04, 2004-05 and 2005-06 respectively for organizing seminars/workshops, creation of website, publication of investors booklet etc. In this regard, the Committee are of the view that for providing more credence to the system of utilization, disbursement and scrutiny of funds allotted under IEPF, it would be appropriate to broad base the composition of the Committee on IEPF by providing place therein for the representatives of registered investors' associations. They, therefore, recommend that the IEPF Rules 2001 be suitably modified so as to make provision for co-option of representatives of registered and known investors' associations on the monitoring Committee of IEPF.

The Committee further note from the information furnished that the activities of the associations taking grants under IEPF are largely confined mainly to organizing seminars/workshops, which may not suffice in promoting

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			<p>awareness on aspects relating to investment in the corporate sector. They, therefore, recommend that regular and sustained media campaigns through electronic and print media, including the vernacular media, be launched for creating awareness among the existing as well as potential investors. They are also of the view that concerted efforts need to be made for promoting financial literacy, which would enable the investors to select the potential companies for investing and be well versed with the pros and cons and nuances of investing in the corporate sector.</p>
5.	80	Ministry of Company Affairs	<p>The Committee are dismayed to note that despite of the increasing pendency of applications/petitions referred to Company Law Board and despite being aware of the fact that non-availability of Members in the Company Law Board is hampering its efficiency, the Government have initiated steps to fill up only two of the five vacant posts on the Board. The Committee do not agree with the approach of the Government in trying to maintain a minimum functional arrangement which is not in the interest of speedy disposal of petitions/applications. The Committee are of the view that the transitory period to the setting up of the NCLT/NCLAT which has been delayed owing to legal challenges should not be treated in a cursory manner by the Government, as it would only result in piling up of petitions/applications as is evident from the data made available to the Committee. For</p>

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6.	85	Ministry of Company Affairs	<p>instance, the percentage of pending petitions/applications before the Benches rose from 28.8% during the period 01.04.2005 to 31.03.2006 to 36.53% during the period, 01.4.2006 to 31.12.2006. They, therefore, recommend that all the vacant posts in the Company Law Board be filled up in order to facilitate speedy disposal of pending cases.</p> <p>The Committee are surprised to note that year after year unrealistic Budget Estimates are being projected under the Head, Modernisation, Computerisation and Networking — Other Charges. Though the actual utilization of the budgeted amount for 2006-07 was only Rs. 29.12 crore, the Ministry has proposed an allocation of Rs. 64.27 crore as Budget estimates during this year. The Committee are concerned to note that there has been some delay in the implementation phase of the project under Modernisation and Computerisation of Ministry of Company affairs and its field offices, namely MCA-21. The Committee desire that the Ministry should furnish a report to them within a month regarding the reasons, impact, persons responsible for the delay in the implementation of MCA-21 project and the action taken thereon. The Committee are also not happy to find that even though the Budget Estimates were downsized sharply while revising them, the actual expenditure incurred since 2004-05 has not matched even the Revised Estimates. The actual expenditure during 2004-05, 2005-06 and</p>

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7.	90	Ministry of Company Affairs	<p>2006-07 was Nil, Rs. 16.55 crore and Rs. 29.12 crore as against the RE and Rs. 1 crore, Rs. 28.13 crore and Rs. 39.15 crore respectively, during three years. This is indicative of lack of prudent budget planning. They, therefore, recommend that the budgetary exercise is executed in such a way that realistic proposals are made and allocated sums utilized productively.</p> <p>The Committee note that for the year 2004-05 and 2005-06, the expenditure incurred under the Head "Investor Education and Protection Fund (IEPF)" was about half of what was sought as non-plan Budget Estimates and Revised Estimates. The Committee are also surprised to find that since December, 2006 only 10% of the amount sanctioned was spent. The reason, as advanced by the Ministry, for the underspending is that adequate number of quality proposals seeking financial assistance were not received from investor associations/voluntary organizations. The Committee observe that though the amount earmarked for the purpose of providing assistance under IEPF is large, the Ministry has not been coming up with appropriate proposals for its proper utilization, with the result that the amounts are underutilized. It is common knowledge that bereft of the right kind of knowledge and awareness, scores of investors are being duped at the hands of promoters and directors of delinquent companies. The Committee, therefore, recommend that the Ministry</p>

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8.	95-96	Ministry of Company Affairs	<p>should endeavour to utilize the funds allocated under IEPF objectively and appropriately so as to facilitate in promoting investors' awareness on a large scale.</p> <p>The Committee note that the Actual Expenditure for the year 2005-06 under the Head 'Grants-in-aid' as indicated in the detailed Demands for Grants (2007-08) of Ministry of Company Affairs is nil. However, in their reply furnished to the Committee, the Government have stated that the actual expenditure incurred under the 'Head' during the year 2005-06 was Rs.1.2 crore approximately and the matter regarding non-booking of this expenditure in the books of accounts is being referred to Chief Controller of Accounts (CCA). This is indicative of lack of exercise of caution and care in furnishing figures of Demands for Grants, which needs to be avoided.</p> <p>The Committee also note that the actual/likely expenditure of the Ministry of Company Affairs under the head Grants-in-aid has been less than the Budget Estimates for the last three years. They, therefore, recommend that, to the optimum extent possible, the budgetary exercise should be done in such a way that the allocated resources are spent during the year without large variation.</p>

MINUTES OF THE TWENTIETH SITTING OF STANDING
COMMITTEE ON FINANCE

The Committee sat on Monday, 3 April, 2007 from 1100 to
1230 hours, 1300 to 1430 hours and 1510 to 1730 hours.

PRESENT

Shri Ananth Kumar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Vijoy Krishna
4. Dr. Rajesh Kumar Mishra
5. Shri Bhartruhari Mahtab
6. Shri Rupchand Pal
7. Shri R. Prabhu
8. Shri K.S. Rao
9. Shri Jyotiraditya Madhavrao Scindia
10. Shri A.R. Shaheen
11. Shri G.M. Siddeshwara
12. Shri M.A. Kharabela Swain

Rajya Sabha

13. Shri Venkaiah Naidu
14. Shri Yashwant Sinha
15. Shri Mahendra Mohan
16. Shri Mangani Lal Mandal
17. Shri C. Ramachandraiah
18. Shri Vijay J. Darda
19. Shri S. Anbalagan

SECRETARIAT

- | | | |
|----------------------------|---|-----------------------------|
| 1. Dr. (Smt.) P.K. Sandhu | — | <i>Additional Secretary</i> |
| 2. Shri P.K. Grover | — | <i>Joint Secretary</i> |
| 3. Shri S.B. Arora | — | <i>Deputy Secretary</i> |
| 4. Shri T.G. Chandrasekhar | — | <i>Deputy Secretary</i> |

Part-I
(1100 to 1230 Hours)

WITNESSES

Ministry of Company Affairs

1. Shri Anurag Goel, Secretary
2. Shri Raghu Menon, AS&FA
3. Shri Jitesh Khosla, Joint Secretary
4. Shri Y.S. Malik, Joint Secretary
5. Shri Ajay Nath, Director, SFIO

2. At the outset, the Chairman welcomed the representatives of the Ministry of Company Affairs, to the sitting of the Committee and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of the representatives of the Ministry of Company Affairs on Demands for Grants (2007-08) and other related matters. The points discussed during the meeting broadly related to issues such as modernization, vanishing companies, serious fraud investigation office, pending applications before Company Law Board, liquidation or exit of companies, comprehensive revision of the Companies Act, 1956 and Investor Education and Protection Fund etc.

4. Thereafter, the Chairman requested the representatives of Ministry of Company Affairs to furnish notes on certain points raised by the Members to which replies were not readily available with them during the discussion.

5. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

Part-II
(1300 to 1430 Hours)

6.	**	**	**	**	**
7.	**	**	**	**	**
8.	**	**	**	**	**

The witnesses then withdrew.

Part-III
(1510 to 1730 Hours)

9.	**	**	**	**	**
10.	**	**	**	**	**
11.	**	**	**	**	**
12.	**	**	**	**	**

The witnesses then withdrew.

The Committee then adjourned.

MINUTES OF THE TWENTY-FIRST SITTING OF STANDING
COMMITTEE ON FINANCE

The Committee sat on Tuesday, 17th April, 2007 from 1100 to
1400 hours, 1430 to 1550 hours.

PRESENT

Shri Ananth Kumar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Vijoy Krishna
4. Shri Bhartruhari Mahtab
5. Shri Rupchand Pal
6. Shri P.S. Gadhavi
7. Shri R. Prabhu
8. Shri K.S. Rao
9. Shri Jyotiraditya Madhavrao Scindia
10. Shri A.R. Shaheen
11. Shri M.A. Kharabela Swain

Rajya Sabha

12. Shri Santosh Bagrodia
13. Shri Raashid Alvi
14. Shri Yashwant Sinha
15. Shri Mahendra Mohan
16. Shri S. Anbalagan

SECRETARIAT

- | | | |
|----------------------------|---|-----------------------------|
| 1. Dr. (Smt.) P.K. Sandhu | — | <i>Additional Secretary</i> |
| 2. Shri P.K. Grover | — | <i>Joint Secretary</i> |
| 3. Shri T.G. Chandrasekhar | — | <i>Deputy Secretary</i> |
| 4. Shri M.L.K. Raja | — | <i>Under Secretary</i> |

Part-I
(1100 to 1400 Hours)

2.	**	**	**	**	**
3.	**	**	**	**	**
4.	**	**	**	**	**
5.	**	**	**	**	**

The witnesses then withdrew.

Part-II
(1430 to 1550 Hours)

WITNESSES

Ministry of Company Affairs

1. Shri Anurag Goel, Secretary
2. Shri Raghu Menon, AS&FA
3. Shri Jitesh Khosla, Joint Secretary
4. Shri Y.S. Malik, Joint Secretary
5. Dr. Joseph Abraham, Economic Advisor
6. Shri B.B. Goyal, Advisor Cost
7. Shri B.M. Anand, Director (Inspection & Investigation)
8. Shri Diwan Chand, Director (Inspection & Investigation)
9. Shri Manoj Kumar Arora, Director
10. Shri Pawan K. Kumar, Director

Attached/Subordinate Officers

11. Mrs. Usha Nigam, Secretary, MRTTP Commission
12. Shri Ajay Nath, Director, SFIO
13. Shri B.L. Sinha, Secretary, CLB
14. Shri S.L. Bunker, Secretary, CCI, New Delhi
15. Dr. D.N. Pathak, CCA, MCA

6. At the outset, the Chairman welcomed the representatives of the Ministry of Company Affairs to the sitting of the Committee and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

7. The Committee then took oral evidence of the representatives of the Ministry of Company Affairs on Demands for Grants (2007-08) and other related matters. The points discussed during the meeting broadly relate to issues such as comprehensive revision to Companies Act and Vanishing Companies.

8. Thereafter, the Chairman directed the representatives of Ministry of Company Affairs to furnish notes on certain points raised by the Members to which replies were not readily available with them during the discussion on or before 19 April, 2007.

9. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned.

MINUTES OF THE TWENTY-SECOND SITTING OF STANDING
COMMITTEE ON FINANCE

The Committee sat on Thursday, 26th April, 2007 from 1330 to
1630 hours.

PRESENT

Shri Ananth Kumar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Rupchand Pal
3. Shri R. Prabhu
4. Shri K.S. Rao
5. Shri Magunta Sreenivasulu Reddy
6. Shri A.R. Shaheen
7. Shri M.A. Kharabela Swain

Rajya Sabha

8. Shri Santosh Bagrodia
9. Shri C. Ramachandraiah
10. Shri Vijay J. Darda
11. Shri S. Anbalagan

SECRETARIAT

- | | | |
|----------------------------|---|-----------------------------|
| 1. Dr. (Smt.) P.K. Sandhu | — | <i>Additional Secretary</i> |
| 2. Shri P.K. Grover | — | <i>Joint Secretary</i> |
| 3. Shri S.B. Arora | — | <i>Deputy Secretary</i> |
| 4. Shri T.G. Chandrasekhar | — | <i>Deputy Secretary</i> |
| 5. Shri M.L.K. Raja | — | <i>Under Secretary</i> |

Part-I
(1330 to 1500 Hours)

DISCUSSION WITH DELEGATION FROM INDONESIA

2.	**	**	**	**	**
3.	**	**	**	**	**
4.	**	**	**	**	**

Part-II
(1515 to 1630 Hours)

CONSIDERATION AND ADOPTION OF DRAFT REPORTS ON
DEMANDS FOR GRANTS (2007-08)

5.	**	**	**	**	**
6.	**	**	**	**	**
7.	**	**	**	**	**
8.	**	**	**	**	**

9. The Committee thereafter considered the draft report on Demands for Grants (2007-08) of the Ministry of Company Affairs and adopted the same with modifications/amendments as shown in Annexure V.

10. The Committee authorised the Chairman to finalise the Reports in the light of suggestions received from the Members and also make consequential verbal changes arising out of factual verification by the concerned Ministries/Departments and present the same to Parliament.

The Committee then adjourned.

ANNEXURE

[MODIFICATIONS/AMENDMENTS MADE BY STANDING
COMMITTEE ON FINANCE IN THEIR DRAFT REPORT ON
DEMANDS FOR GRANTS (2007-08) OF THE MINISTRY
OF COMPANY AFFAIRS AT THEIR SITTING
HELD ON 26 APRIL, 2007]

**Page No. 49,
Para No. 85,
Line 8**

After '...., namely MCA-21.'

Add The Committee desire that the Ministry should furnish a report to them within a month regarding the reasons, impact, persons responsible for the delay in the implementation of MCA-21 project and the action taken thereon.