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**STANDING COMMITTEE
ON FINANCE
(2007-08)**

FOURTEENTH LOK SABHA

MINISTRY OF CORPORATE AFFAIRS

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

*[Action taken by the Government on the Recommendations/Observations
contained in the Fifty-Fifth Report of the Standing Committee on Finance
on Demands for Grants (2007-08) of Ministry of Corporate Affairs]*

SIXTY-THIRD REPORT



सत्यमेव जयते

**LOK SABHA SECRETARIAT
NEW DELHI**

November, 2007 / Agrahayana, 1929 (Saka)

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorized by the Committee to present the Report on their behalf, present this Sixty-third Report on action taken by Government on the recommendations contained in the Fifty-fifth Report of the Committee (Fourteenth Lok Sabha) on Demands for Grants (2007-2008) of the Ministry of Corporate Affairs.

2. The Fifty-fifth Report was presented to Lok Sabha on 28th April, 2007 and laid in Rajya Sabha on 3rd May, 2007. Replies indicating action taken on all the recommendations contained in the Report were furnished by the Government on 6 July, 2007.

3. The Committee considered and adopted this Report at their sitting held on 28 November, 2007.

4. An analysis of action taken by Government on the recommendations contained in the Fifty-fifth Report of the Committee is given in the Appendix.

5. For facility of reference observations/recommendations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI;
28 November, 2007

7 Agrahayana, 1929 (Saka)

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

This Report of the Standing Committee on Finance deals with action taken by Government on the recommendations/observations contained in their Fifty-Fifth Report (Fourteenth Lok Sabha) on Demands for Grants (2007-08) of the Ministry of Corporate Affairs (formerly Ministry of Company Affairs) which was presented to Lok Sabha 28th April, 2007 and laid in Rajya Sabha on 3rd May, 2007.

2. The Report contained 8 recommendations. Action taken notes have been received from the Government in respect of all the recommendations contained in the Report. These have been categorised as follows:

- (i) Recommendations/Observations which have been accepted by the Government:

Recommendation Sl. Nos. 2 (Para Nos. 45 & 50) 3, 4 (Para No. 72) 5, 6, 7, & 8

(Chapter II)

- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies:

Recommendation Sl. Nos. Nil

(Chapter III)

- (iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:

Recommendation Sl. Nos. 1 & 2 (Para Nos. 48 & 49)

(Chapter IV)

- (iv) Recommendations/Observations in respect of which final replies of the Government are still awaited:

Recommendation Sl. Nos. 2 (Para Nos. 46, 47, 51 & 52), and 4 (Para No. 71)

(Chapter V)

3. The Committee desire that the replies to the recommendations contained in Chapter I & V may be furnished to them expeditiously.

4. The Committee will now deal with action taken by the Government on some of their recommendations.

A. Comprehensive Revision of the Companies Act, 1956

Recommendation (Sl. No. 1, Para Nos. 18 and 19)

5. Keeping in view of the urgency and importance attached to the issue, the Committee strongly recommended that the process of finalising the Bill to amend the Companies Act, 1956 be expedited and the same be introduced in Parliament in this financial year *i.e.* 2007-08.

6. The Ministry of Corporate Affairs in their action taken reply have, *inter alia*, stated that the draft Companies Bill is being finalized with vetting by the Ministry of Law. As recommended by the Hon'ble Committee the process of finalizing the Bill is being expedited and every effort will be made to introduce the Bill in Parliament at the earliest.

7. **The Committee regret to note that the action taken reply furnished by the Ministry of Corporate Affairs is in no way different from what was stated by them during the Committee's examination in April, 2007. The Ministry had then indicated that the Legislative Department was vetting the draft on Companies Bill and as soon as the bill was finalized, it would be introduced in Parliament after obtaining requisite approvals. It appears that since then there has been no concrete progress in finalization of the Bill. The Committee in this connection would draw the Ministry's attention to the commitment made in the Ministry's Outcome Budget of 2007-08 that the Bill would be finalized and introduced in Parliament in the financial year 2007-08. The Committee stress that all out efforts be made to ensure that the Bill is finalised and introduced in the financial year 2007-08.**

B. Failure of the Companies to file Annual Returns

Recommendation (Sl. No. 2, Para Nos. 48 & 49)

8. In view of the failure of the substantial number of companies in filing annual returns as required under sections 159, 160 & 161 of the Companies Act, 1956, the Committee recommended that strict measures should be taken by Government to put an end to this blatant violation of law. However, in view of the submissions made by the Government regarding enforcement related problems the Committee felt it essential to initiate and pursue prosecution proceedings at least against such companies, which are found repeatedly failing in filing annual returns, which would serve as an effective deterrent for others.

9. The Government in their action taken reply, *inter-alia*, stated as under:—

“It is correct that the law provides for penalties for non-compliance by the companies but such penalties and fines can be imposed only through filing of prosecution cases in the courts of competent jurisdiction. It has been observed that the process requires (i) issuance of show cause notices to the defaulting companies and the officers in default, (ii) filing of prosecution cases in the courts of competent jurisdiction and then follow-up thereof in the courts. Filing of prosecutions against the companies and the judicial process has been found to be very time consuming, and rather ineffective, as brought out by the O.P. Vaish Committee appointed for this purpose. Going by the rate of default, the Ministry may be required to file about 18.00 lakh prosecution cases every year [assuming a default by 3.00 lakh companies and three prosecutions required to be filed in each case of default on non-filing of Annual Returns and Balance Sheets respectively]. Neither the Ministry has the manpower to handle such large numbers of prosecutions nor the Courts have the capacity to decide so many cases within a prescribed time frame. Moreover, the costs involved in this exercise for outweigh the benefits. The Ministry has carried out an analysis on the basis of database now available in the electronic registry to address this problem and drawn up an action plan for improvement in compliance management. It is brought out from the following:

- (i) The compliance rate in filing of Annual Returns and Balance Sheets has improved by more than 65% and 80% in one year with the implementation of MCA 21 as is brought out from the following statistics:

	No. of ARs and BSs filed during 2005-06		No. of ARs and BSs filed during 2006-07 (as on 15 May, 2007)	
	BS	AR	BS	AR
No. of Companies	2,04,346	1,90,252	3,43,000	3,43,000
Improvement in %			67.85%	80.28%

- (ii) It has been observed that there are a large number of companies which have not filed any documents for a period of more than 03 years which leads to the presumption that these are defunct companies. A total of 1,37,456 such companies have been identified and the Registrar of

Companies have been directed to take *suo-motu* action under section 560 of the Companies Act, 1956 to strike off the names of the defunct/inactive companies from the register of companies with a view to cleaning the registry from the administrative burden of such defunct companies. About 49,000 companies have already been struck off the Register under the Simplified Exit Schemes of 2003 and 2005;

- (iii) The analysis further brings out the need to focus on compliance management in an order of priority. For example, from the public interest point of view, it is important that the non-compliance is controlled and minimised in respect of the listed companies, public companies and the private companies with an authorised capital of more than Rs. 1.00 crore, comprising of about 90,000 companies in all, where the compliance rate is already above 70%. It has been decided to issue show cause notices to the defaulting companies in these categories in the order mentioned above in the first instance and follow the same with legal process;
- (iv) The focus on improvement in compliance management in respect of companies with an Authorised Capital between Rs. 10.00 lakh and up to Rs. 1.00 crore is proposed to be taken up as the next priority;
- (v) Small private companies with an authorised capital of up to Rs. 10.00 lakh constitute 53% of the total companies and there is hardly any public interest involved in these companies. The data shows that the bulk of the defaulting companies, including the defunct/inactive companies fall in this group. Hence, this group is proposed to be targeted with a two-fold action plan *i.e.* (i) by way of taking recourse to Section 560 proceedings with a view to striking off their names from the registry as the top priority, and (ii) taking recourse to the legal measures against the balance defaulting companies as the next priority.

It is requested that the Hon'ble Committee may accept and approve of the approach proposed to be followed by the Ministry in this area."

10. As regards the Ministry's request for the Committee's approval, the Committee would like to point out that it is not for the Committee to accord approval for the action plans of the Government. It is entirely within the jurisdiction of the Government to take such action as deemed appropriate on implementing the

Committee's recommendations. In regard to the question of compliance management of small companies, the Committee note that small companies constitute as much as 53% of the total number of companies. Unless strict action is taken against all those companies, which repeatedly fail to file annual returns, illegal activities, if any, indulged in by those companies may escape notice. The Committee, therefore, emphasise that urgent measures are necessary against all defaulting companies irrespective of the size of their capital. The Committee also desire that the defunct as well as ineffective companies should be truck off from the register at the earliest.

C. Identification of Vanishing Companies

Recommendation (Sl. No. 2, Para No. 46, 47, 51 & 52)

11. (i) As it is essential to have an effective mechanism of 'Real Time Online Exchange of Factual Information' among the Ministry, SEBI and other agencies *inter alia* to identify vanishing companies and their promoters and to bring them to book, the Committee had recommended inclusion of this feature/mechanism in MCA-21 e-governance project. The Government, in its action taken reply, have *inter alia* stated that the possibilities of the 'Online Exchange of Information' between various agencies and provision of its functionality in the MCA 21 system were being explored keeping in view the compatibility of the programmes being followed by the SEBI and the RBI which was likely to take some time.

(ii) In the absence of availability of any means with Registrar of Companies (RoC) to check/cross check the veracity of address of a company as may be furnished in the annual returns, the Committee further recommended for evolving a viable mechanism for checking/cross checking the veracity of the information provided. On the issue of making available Registrar of Companies (RoCs) the means to check/cross check the veracity of the address and other details of a company, the Government have informed, *inter-alia*, that they were already working on the action plan to address the concern expressed by the hon'ble standing Committee and data validation/Correction has been identified as a major thrust area under MCA 21 for 2007-08.

(iii) As there is likelihood of non-traceability of the vanishing companies the Committee also recommended that criteria for identifying a company as vanishing needs to be streamlined and the Government should revise the definition so that any Company which does not fulfil even one of the pre set criteria might be categorized as a vanishing company. With regard to the need for changing the criteria

for identifying the vanishing companies, the Government have replied that the Committee's recommendation has been noted for compliance. Recognizing the need for revisiting the criteria, CMC is stated to have already constituted a small group consisting of officials from MCA, MoF and SEBI to examine the issue carefully keeping in view the legal provisions.

12. The Committee desire the Government to initiate fresh and effective initiatives expeditiously and they be informed of the outcome of these initiatives.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Identification of Vanishing Companies

Recommendation (Sl.No. 2, Para Nos. 45 & 50)

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 a 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.

The Committee take note of the fact that very little has been done in regard to prosecuting/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.

Reply by the Government

As regards the exercise for identification of Vanishing Companies, which came out with IPOs during the period 1998-2001, it is submitted that the exercise has already been completed. It has been found that none of the companies which went in for Public Issues during the check period [1991-2001] are found vanishing in the Eastern, Northern

and Western Regions. However, 09 Companies have been identified as Vanishing in the Southern Region. The names of these companies are given in the following table:

Sl.No.	Name of the Company	State
1.	M/s. Baron Infotech Limited	Andhra Pradesh
2.	M/s. Daisy Systems Limited	-do-
3.	M/s. IMAP Technologies Limited	-do-
4.	M/s. Orpine System Limited	-do-
5.	M/s. Sequel Soft India Limited	-do-
6.	M/s. Sibar Media & Entertainment Limited	-do-
7.	M/s. Sibar Software Services (India) Limited	-do-
8.	M/s. Swal Computers Limited	-do-
9.	M/s. Visle Cybertech Limited	-do-

The Coordination and Monitoring Committee (CMC) on Vanishing Companies has considered the recommendations made by the Regional Task Forces in its 20th meeting held on 23rd April 2007 and the said 09 companies have been included in the list of Vanishing Companies and action is being initiated against the promoters/directors of these companies.

It is further submitted that the recommendations of the Hon'ble Standing Committee for identification of Vanishing Companies, which came out with IPOs during the period 2001—2005 have been noted for compliance. A list of companies that came out with IPOs during the period 2001—05, as forwarded by SEBI, has been circulated among four Regional Task Forces for identifying the Vanishing Companies.

The inspections of the companies (which are traced back), have been carried out under Section 209A of the Companies Act, 1956 and prosecutions have already been filed against such companies and its promoters/directors under various provisions of the Companies Act, 1956. Disgorgement proceedings have also been filed against two companies as a test case. In one case, the CLB has dismissed the application filed by the Ministry and an appeal has been preferred against the CLB orders. In the second case, the orders of the CLB are still awaited.

The concept of Director Identification Number (DIN) has been introduced as part of the e-governance initiative. All the existing

Directors as well as those intending to be Directors in future are now required to obtain DIN with the implementation of MCA-21 for which a process has already been put in place. The allotment of DIN requires an applicant to submit proof of his identity and proof of his residence at the time of submission of application and these documents are duly certified by the authorities recognized for this purpose. The need for introduction of a unique identifier for Directors arose from (i) creating a comprehensive and authentic database on the Directors, and (ii) the phenomenon of companies that raise funds from the public and subsequently vanish, with their Directors becoming untraceable. Sections 266A to 266G of Companies (Amendment) Act, 2006, provide for Director Identification Number (DIN). The DIN is in the form of a unique identifier for an existing or a future intending Director, containing personal information about such Director. A reference to DIN allotted to a Director is already a mandatory field in respect of certain filings. Since the process establishes the identity of Directors on the companies and develop a link between the Company Identification Number (CIN) and the DIN, it would enable the Ministry to do a meaningful processing in relation to enforcing compliance of statutory provisions of the Companies Act. This would not only help in tracking the identity of the persona but also correlate his participation in other companies past or present. It is expected that the DIN would help in tracking the Directors indulging in such unethical practices.

As far the need to take 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, it may be submitted that this due diligence is required at a stage when a company decides to get listed for accessing capital market and not at the time of incorporation. It is required to meet the criteria prescribed by SEBI, as the Capital Market Regulator, through its prescribed listing guidelines. Now that SEBI have revised their listing requirements and made them more stringent, there is greater amount of scrutiny involved in the process. Enforcement of these guidelines by SEBI should considerably reduce the entry of such companies in the capital market domain.

[No. G-20018/7/07-BGT]

Recommendation (Sl.No. 3, Para No. 63)

The central concern of the Committee as expressed in their earlier reports was on evolving an effective procedure for exit of companies slated 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/NLAT 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/NLAT comes through, the Government should formulate and come out with special scheme such as the 'simplified exist scheme' of the past, which would enable in easy exit of the companies seeking liquidation.

Reply by the Government

The SLP filed by the Central Government before the Supreme Court in the matter of setting up of NCLT/NLAT has since been heard. The Hon'ble Supreme Court has referred the matter to the Constitutional Bench, which is yet to be constituted.

As regards introduction of Simplified Exit Scheme, it is stated that the provisions of Section 560 of the Companies Act, 1956 provide for a modality for striking off names of defunct companies from the Register of companies maintained by Registrar of Companies. The Ministry has issued instructions to all ROCs to examine and initiate *suo motu* action under Section 560 of the Act for striking off the names of eligible companies from amongst those which have not filed their statutory documents for the last more than 3 years. Through this process itself, it is expected that a large number of non-working, defunct companies would be weeded out from the Register of companies. In doing so, care needs to be maintained that unscrupulous elements do not misuse this facility to evade their obligations to their shareholders and creditors. The recommendations of the Hon'ble Committee for incorporating appropriate provisions in the revised Companies Bill to enable easy and effective liquidation of companies and to formulate special "Simplified Exit Scheme" have been noted.

[No. G-20018/7/07-BGT]

Recommendation (Sl.No. 4, Para No. 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 the 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.

Reply by the Government

The recommendation of the Standing Committee to launch regular and sustained media campaigns through electronic and print media, including the vernacular media has been noted. Media campaign would be launched more extensively to educate and create awareness among investors. The media campaign would be so designed that this would also promote financial literacy.

[No. G-20018/7/07-BGT]

Recommendation (Sl.No. 5, Para No. 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.

Reply by the Government

On the basis of recruitment process undertaken for filling up of one post each of Member (Judicial) and Member (Technical), Selection Committee met on 03.5.2007 and has recommended candidates for these posts. The proposal has been sent to the Department of Personnel & Training (DOPT) for obtaining approval of Appointments Committee of the Cabinet (ACC).

[No. G-20018/7/07-BGT]

Recommendation (Sl.No. 6, Para No. 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 of 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.

Reply by the Government

MCA21 e-Governance Project:
The Background:

The MCA21 e-Governance Project was initiated by the Ministry to enhance efficiency in delivery of service and move towards electronic corporate governance. A Committee consisting of officers from the Ministry and the NIC was constituted on 21.05.2001 to work out the requirements and recommend ways and means to enhance efficiency and move towards electronic corporate governance. To meet the

expenditure under this project, a separate Object Head 05.99.50, "Modernisation & Computerisation of MCA and its field offices" was also created.

2. Having explored various alternatives, it was decided to go in for a comprehensive end-to-end service delivery e-Governance Project rather than following the approach of piece-meal computerization. This required a thorough study and development of the concept, business process re-engineering, architectural solution and development of service level benchmarks to be prescribed for the operator. A group of experts was identified under the aegis of NISG and the RFP document, which remains a unique document and valid till date, was prepared through 2003-04. Competitive bids were invited and the process of selection of solution providers was set in motion.

3. The MCA21 project was under various stages of Government of India's approval during FY 2004-05. The Committee on Non-Plan Expenditure (CNE) approved the project on 16.12.2004 and the Cabinet Committee on Economic Affairs (CCEA) accorded its approval on 02.02.2005. Thereafter, the project implementation was started on 01.03.2005 with the signing of contract with M/s TCS, the selected operator. It was for this reason that even though budget provision of Rs. One crore had been made for FY 2004-05 to meet any contingent requirements but no expenditure could be incurred on this account due to the time taken in completion of various procedural requirements till March, 2005.

Overall Project Cost Details:

4. MCA21 was conceptualized as a unique service delivery project following a Public-Private Partnership (PPP) approach based on the BOOT principle. It is different from a normal computerization project as it focuses on service delivery. The operator was required to make the investments upfront and paid by the Government in instalments spread over a period of six years through Equated Quarterly Instalments (EQIs). The contract provides for release of payments to the operator based on completion of deliverables duly certified through a prescribe system. The project budget, as approved by the CCEA, consists of the following components:

Sl.No.	Description	Amount
1	2	3
(a)	Project Cost	Rs. 314.114 crore with permissible addition of Rs. 4.68 crore towards change of scope in the Bespoke software up to 30%.

1	2	3
(b)	Cost of Scanning and digitization of legacy records beyond 6 crore sheets (one side) of paper	This amount will be firm up only when data migration is completed at all sites. Costs up to six crore pages is included in the Project Cost.
(c)	Estimated Cost of PMU and Exit Management Activities	Rs. 10.50 crore (The exact outlay will be firm up after finalization of bids and selection of implementation agency)
(d)	Estimated Cost of setting up and maintaining the GSR	Rs. 12.40 crore (The exact outlay will be firm up after finalization of bids and selection of implementation agency)
(e)	Cost of Consultants	Rs. 4.20 crore
	Total Costs (a)+(c)+(d)+(e)	Rs. 341.214 crore (estimated) plus the permissible addition of Rs. 4.68 crore towards change of scope in the Bespoke software up to 30%

Phasing:

5. The Project consists of two phase *i.e.* (i) the implementation phase (which was envisaged to be completed over a period of 60 weeks from the date of signing of contract and being April 24, 2006 in this case) and (ii) the operations phase for a period of six years after the Project Implementation Completion Date (which is contingent upon successful testing and certification of the solution). Further, the project cost of Rs. 314.114 crore, which is payable to the operator, and remains a fixed cost over the project period (implementation phase and operations phase over a period of six years) consists of the following components:

Sl.No.	Description	Amount
1	2	3
1.	Cost of Bespoke Software (to be paid to the operator on development of the Software as it becomes a property of the MCA)	Rs. 15.60 crore (50% to be paid on launch of two pilots and the balance 50% on final certification)

1	2	3
2.	Cost towards Scanning and Digitisation of Physical records of Companies	Rs. 17.64 crore @ Rs. 2.94 per sheet of paper up to 6.0 crore pages
3.	EQI-II Payments (towards setting-up and operating the Facilitation Centres at 52 locations throughout the country)	Rs. 56.6004 crore (to be paid in quarterly instalments of Rs. 4.7167 crore each over a period of three years from the date of Certification of Project Implementation Completion Date)
4.	EQI-I Payments (towards O & M of Data Centre, DRC, and the delivery of services through the Operations Phase of six years)	Rs. 224.2741 crore (to be paid in quarterly instalments of Rs. 9.3475 crore each over a period of six years from the date of Certification of Project Implementation Completion Date)
5.	Total	Rs. 314.114 crore with permissible addition of Rs. 4.68 crore towards change of scope in the Bespoke software

6. It is clear from the above that as per the Project Design, M/s TCS (the operator) made investments upfront on setting up facilities for scanning and digitization of legacy documents, development of Bespoke Software, setting-up the Data Centre at Delhi and the Disaster Recovery Centre at Chennai, provision of hardware [computers (about a 1000), scanners, printers, UPS and power back-up including DG sets] in all the offices of the Ministry and setting-up state-of-the-art Facilitation Centres (including leasing, renovating, equipping and staffing costs) at 52 locations throughout the country.

BE and RE 2005-06

7. The Budget provision for FY 2005-06 had to be made in the month of January, 2005 anticipating the approvals and progress in the implementation of the project. As such, a provision for an amount of Rs. 60.00 crore was projected at BE stage. However, keeping in view the initial delay in take-off, a mid-year review was undertaken and the RE was projected for an amount of Rs. 28.1310 crore. As per the

original schedule, the pilots were to be rolled out in week 40 *i.e.* by December 05, 2005 but these were postponed to February and March 2006 due to the time needed for resolution of various issues. As such, against the RE of Rs. 28.1310 crore, expenditure could be incurred for an amount of Rs. 16.55 crore. The payments could be released to the operator only to the extent of completion of prescribed milestones. The delays were primarily on account of the following:

- (i) Long time taken in determination of System Requirement Specifications (SRS) by the Ministry keeping in view the volumes;
- (ii) Resultant delay in finalization of the solutions development;
- (iii) Time taken in identification of suitable locations for setting-up the Facilitation Centres by the Operator, entering into lease agreements, furnishing etc;
- (iv) Problems of space in ROC offices for setting-up scanning and digitization facilities in production mode;
- (v) Time taken in notifying the amendments in rules and regulations to facilitate e-filing and notification of e-forms;
- (vi) Resolution of the Payment and Accounting Processes requiring approvals from the CGA and the C&AG for accepting payment of statutory fees in electronic mode.

BE and RE 2006-07

8. Again, the BE for the FY 2006-07 was made for an amount of Rs. 70.8370 crore keeping in view the progress achieved till January, 2006 and based on the unpaid commitments of the previous year and the anticipated requirement for release of payments to the operator and the PMU consultants. As scheduled, the Operator was able to roll-out the project at 12 out of the 20 ROC locations by April 28, 2006 [as against April 24, 2006 coinciding with week 60 as per original schedule]. As the programme required involvement of external stakeholders (about 7.5 lakh companies and professionals) for usage of the facilities, functional problems were encountered at these locations. It was at this stage that the Ministry decided to temporarily withhold further roll-outs and take effective steps towards stabilization of the functional issues, a communication-cum-awareness plan and facilitation in addition to hand-holding of the internal staff to operate in an electronic work processing environment. The roll-out was resumed only in the month of July, 2006 when the system robustness was certified to have reached a reasonable level of comfort and completed at all locations by July 30, 2006 with the exception of Jammu ROC office

where it was made operational from September 4, 2006. The Ministry then mandated e-filing from September 16, 2006. Keeping the actual progress of the project in view, the RE 2006-07 was kept as Rs. 39.15 crore. However, the Ministry closely monitored the progress of the project and the actual expenditure during 2006-07 was Rs. 29.2637 crore. The remaining amount was withheld as the TCS could not provide the deliverables by March, 2007.

9. The MCA21 project has been designed for end to end delivery of services involving internal and external stakeholders. The feedback received from the stakeholders after the launch of this project at 12 ROC office locations, necessitated consideration and settlement of following issues:

- (i) Improvement in system performance,
- (ii) Improvement in stability of the system,
- (iii) Optimization in processes/forms,
- (iv) Gradual transformation from manual filing to electronic filing and
- (v) Awareness & preparedness of stakeholders.

10. Further, there were other issues like dependencies on external agencies for provision of leased connectivity lines in field offices and obtaining of DSCs by the stakeholders. The delay in implementation, whatsoever, was for very strong ground realities and an effort on the part of the Ministry to ensure that the massive transition from a manual system of operations to a completely electronic process was smooth and acceptable to various stakeholders. The Ministry took a series of steps to pave the way for successful implementation of the project, major among which are as follows:

- (i) Amendments in the Companies Act to provide for Director Identification Number (DIN) and mandating of e-filing;
- (ii) Introduced the scheme of Certified Filing Centres (CFCs) to provide for facilitation for e-filing on a nationwide basis;
- (iii) Network connectivity problems at certain locations;
- (iv) Repeated rounds of testing and certification of the system through STQC;
- (v) Assimilating feedback/response from the stakeholders to build on the programme features;
- (vi) Improving the ease of navigation/usability of the system;

- (vii) Arrangements to cope with the load of first peak-filing season;
- (viii) Introduction of a new process of Straight Throughput of documents required to be taken on record;
- (ix) Arrangements for DIN issuance process for the Directors;
- (x) Development of operational MIS systems etc.

11. It is the result of all these efforts that, what started with 100% stakeholders coming to the Facilitation Centers for filing their documents initially, has undergone a major transition today with 92% of the documents being filed by the corporates and professionals from their Virtual Offices (VFOs) without using the facilitation centres. There cannot be a greater measure of acceptance of the programme by the external stakeholders. The Hon'ble Committee may like to note that inspite of six years of introduction of e-filing in UK, only 40% of the companies continue to file documents electronically, whereas it is 100% in case of India from September 16, 2006, which is a sort of world record. MCA21 has been recognized as a path-breaking initiative in Governmental governance processes for the year 2006. In a recent survey of the CFOs of leading companies conducted by the Ernst & Young and aired on the CNBC, 92% of the CFO unequivocally rated the implementation of MCA21 programme as a revolutionary step by the Government in the right direction.

12. Notwithstanding the above, as the contact provided for release of payments to the Operator only upon fulfilment of the prescribed and linked milestones, the ministry did not release the payments to the operator as certain parts of the deliverables were still to be completed, and the certification of deliverables was yet to be achieved inspite of eight rounds of testing of the software by the STQC, engaged for this purpose. The Ministry has been very cautious not to compromise on the quality of the software and the certification with closure of all the outstanding items was insisted upon.

13. The requirement of funds was reviewed during the mid-year and the demand was revised to Rs. 39.1500 crore in the RE 2006-07 for which the Finance Ministry was duly informed on November 10, 2006 itself during the review meeting. The Ministry could have utilized the RE fully but it deliberately and consciously chose to decide in favour of the expediency of quality of the programme rather than utilization of the budget, much to the discomfort of the operator. As a matter of fact, the Ministry deserves to be completed for its due diligence on this account. It was only on January 17, 2007 that the project reached the stage of provisional certification meriting release of

EQI and other payments to the operator. Accordingly, whatever became due to be released, strictly in accordance with the provisions of the contract, an amount of Rs. 29.12 crore was finally utilised. It did create a lot of pressure on the financials of the project for the operator but the Ministry decided to insist on the quality of the programme and completion of various critical deliverables rather than utilization of the Budget.

BE 2007-08

14. An amount of Rs. 64.27 crore has been provided in BE 2007-08 for meeting the expenditure requirements on the MCA 21 Project. The provision was made on the basis of anticipated expenditure for payment of the Quarterly Instalments which work out to Rs. 56.25 crore, payments to NISG for rendering PMU services, balance payments to the Project Consultants, payment towards DIN issuance process and the balance and final payments towards scanning and digitization. However, on a mid-term review of the anticipated expenditure of the project and considering certain changes in the schedule of some of the deliverables to the next financial year, it is expected that there would be an anticipated savings of Rs. 8.70 crore in the Project expenditure during the current Financial Year and accordingly, an amount of Rs. 55.5674 crore has been proposed in the RE 2007-08. The savings have been communicated to the Department of Expenditure.

15. The operational statistics of the programme as on May 15, 2007 are given below for the kind information of the Hon'ble Committee:

Sl.No.	Description	Count
1	2	3
Filing Status as on November 02, 2007		
1.	Average portal hits per day	18.32 lakh
2.	Peak portal hits (Nov. 29, 2006)	65 lakh
3.	Maximum number of documents filed on a single day (November 29, 2006)	36,242
4.	Total number of documents filed till date	30.89 lakh
5.	Companies registered online	80,651
6.	Total DINs issued till date	6.80 lakh
7.	Company records viewed on-line	3.46 lakhs
8.	Number of Balance-sheets filed	4.86 lakh

1	2	3
9.	Number of Annual Returns filed	4.86 lakh
10.	Number of DIN-3 filed by companies	3.54 lakh
11.	E-filing through VFO	92%
12.	On-line payment transaction	45%

16. Implementation of the programme has made a significant impact on the speed and certainty in delivery of services to the stakeholders which is brought out from the following table:

A COMPARATIVE CHART SHOWING IMPROVEMENT
IN DELIVERY OF SERVICES UNDER MCA21
E-GOVERNANCE PROJECT

Sl.No.	Particulars of power and functions	Period as given in the Citizen Charter	Actual time taken pre-MCA21	Time taken post MCA21 implementation
1	2	3	4	5
1.	Application for approval of name of a proposed company-section 20 of the Companies Act, 1956	3 working days	7 days	1 day
2.	Application for registration of a company-Section 33 including issuance of Incorporation Certificate	10 working days	15 days	5 days*
3.	Application for change of name of a company-Section 21/31 and Section 43A(4), 572	15 working days	15 days	3 days

1	2	3	4	5
4.	Registration of charges, modifications and satisfaction- Section 125 and 141	2 working days	10-15 days	2 days
5.	Issue of certified copy of documents- Section 610	5 working days	10 days	2 days
6.	Registration of other documents filed with ROCs	60 days	60 days	
7.	Annual Filings (Annual Returns and Balance sheets)			Instantaneous
8.	Form 32 (Change in Director)			3 days
9.	Form 18 (Change in Regd. Office Address)			3 days
10.	Form 5 (Increase in Authorised Capital)			3 days
11.	Inspection of Public Documents	Manual and time consuming process requiring physical visits to ROC Offices	On-line public view facility	

*System is capable of delivering the service the same day. In a test case, a company was incorporated in one hour also. However, it depends on mode of payment of statutory fees by the service-seeker (on-line or off-line) which may add up to 3 more days and receipt of stamp paper physical documents in time for verification purposes.

The Hon'ble Standing Committee may consider the above details and accept the submissions made by the Ministry on this account.

[No. G-20018/7/07-BGT (Part-II)]

Recommendation (Sl.No. 7, Para No. 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 under spending is that adequate number of quality proposals seeking financial assistance were not received from investor association/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.

Reply by the Government

The recommendation of the Standing Committee has been noted. All out efforts would be made by this Ministry to utilize the funds allocated under IEPF objectively and appropriately so as to facilitate in promoting investors awareness on a large scale.

[No. G-20018/7/07-BGT]

Recommendation (Sl.No. 8, Para Nos. 95 & 96)

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.

The Committee also noted that the actual/likely expenditure of the Ministry of Corporate 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.

Reply of the Government

The matter was taken up with the Principal accounts office, Ministry of Corporate Affairs, who have clarified that on verification of accounts for the period 2005-06, it was found that an expenditure of Rs. 1.25 crore pertaining to the Object head '3451-00-090-05.03.31 Grants-in-Aid' had been misclassified and booked under the Object head 'Modernisation'. As the final accounts for the Financial Year 2005-06 have been submitted, no correction is admissible in the books of accounts at this stage. However, suitable note of error has been made against the original entries.

The observations of the Committee have been noted for compliance, in future.

[No. G-20018/7/07-BGT]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE
COMMITTEE DO NOT DESIRE TO PURSUE IN
VIEW OF GOVERNMENT'S REPLIES

-NIL-

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl. No. 1, Para No. 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.

Reply of the Government

After evaluation of the recommendations of the J.J. Irani Committee which submitted its report on 31st May 2005 and other inputs received by the Ministry on various issues, a draft companies bill is being finalized. The process is at an advanced stage. The Ministry would introduce the Companies Bill in the Parliament after obtaining requisite approvals.

[No. G-20018/7/07-BGT]

Recommendation (Sl. No. 2, Para Nos. 48 & 49)

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 up to 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 2003-04, 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.

Reply by the Government

The reply to the observations made by the Hon'ble Committee under paras 48 & 49 above is being given hereunder. The Ministry shares the concern of the Hon'ble Committee on the issue of non-compliance by companies in filing of the Annual Returns and Balance Sheets. It is correct that the law provides for penalties for non-compliance by the companies but such penalties and fines can be imposed only through filing of prosecution cases in the courts of competent jurisdiction. It has been observed that the process requires (i) issuance of show cause notices to the defaulting companies and the officers in default, (ii) filing of prosecution cases in the courts of competent jurisdiction and then follow-up thereof in the courts. Filing of prosecutions against the companies and the judicial process has been found to be very time consuming, and rather ineffective, as brought out by the O.P. Vaish Committee appointed for this purpose. Going by the rate of default, the Ministry may be required to file about 18.00 lakh prosecution cases every year [assuming a default by 3.00 lakh companies and three prosecutions required to be filed in each case of default on non-filing of Annual Returns and Balance Sheets respectively]. Neither the Ministry has the manpower to handle such large numbers of prosecutions nor the Courts have the capacity to decide so many cases within a prescribed time frame. Moreover, the costs involved in this exercise far outweigh the benefits. The Ministry has carried out an analysis on the basis of database now available in the electronic registry to address this problem and drawn up an action plan for improvement in compliance management. It is brought out from the following:

- (i) The compliance rate in filing of Annual Returns and Balance Sheets has improved by more than 65% and 80% in one year with the implementation of MCA 21 as is brought out from the following statistics:

	No. of ARs and BSs filed during 2005-06		No. of ARs and BSs filed during 2006-07 (as on 15 May, 2007)	
	BS	AR	BS	AR
No. of Companies	2,04,346	1,90,252	3,43,000	3,43,000
Improvement in %			67.85%	80.28%

- (ii) It has been observed that there are a large number of companies which have not filed any documents for a period of more than 03 years which leads to the presumption that these are defunct companies. A total of 1,37,456 such companies have been identified and the Registrar of Companies have been directed to take *suo-motu* action under section 560 of the Companies Act, 1956 to strike off the names of the defunct/inactive companies from the register of companies with a view to cleaning the registry from the administrative burden of such defunct companies. About 49,000 companies have already been struck off the Register under the Simplified Exit Schemes of 2003 and 2005;
- (iii) The analysis further brings out the need to focus on compliance management in an order of priority. For example, from the public interest point of view, it is important that the non-compliance is controlled and minimised in respect of the listed companies, public companies and the private companies with an authorised capital of more than Rs. 1.00 crore, comprising of about 90,000 companies in all, where the compliance rate is already above 70%. It has been decided to issue show cause notices to the defaulting companies in these categories in the order mentioned above in the first instance and follow the same with legal process;
- (iv) The focus on improvement in compliance management in respect of companies with an Authorised Capital between Rs. 10.00 lakh and up to Rs. 1.00 crore is proposed to be taken up as the next priority;
- (v) Small private companies with an authorised capital of up to Rs. 10.00 lakh constitute 53% of the total companies and there is hardly any public interest involved in these companies. The data shows that the bulk of the defaulting companies, including the defunct/inactive companies fall in this group. Hence, this group is proposed to be targeted with a two-fold action plan *i.e.* (i) by way of taking recourse to Section 560 proceedings with a view to striking off their names from the registry as the top priority, and (ii) taking recourse to the legal measures against the balance defaulting companies as the next priority.

It is requested that the Hon'ble Committee may accept and approve of the approach proposed to be followed by the Ministry in this area.

[No. G-20018/7/07-BGT]

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

Recommendation (Sl.No. 2, Para No. 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 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 brining them to book. They, therefore, recommend that this feature be included as a part of the MCA-21 e-governance project.

Reply by the Government

As regards the issue of the 'online exchange of information' between various agencies and provision of this functionality in the MCA21 system, the possibilities therefor are being explored keeping in view the compatibility of the programmes being followed by the SEBI and the RBI. It is likely that new forms may need to be evolved and adopted for this purpose. It is likely to take some time. RBI has nominated Shri P. Krishnamurthy, Chief General Manager-in Charge of D/o Non-Banking Supervision as their representative on CMC so as to facilitate the setting up of regular co-ordination mechanism at operational level.

[No. G-20018/7/07-BGT]

Recommendation (Sl.No. 2, Para No. 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.

Reply by the Government

A proposal to require the companies to provide their electronic address along with registered office address is under consideration of the Ministry. However, mandating of this additional stipulation would need an amendment in the Act. The e-mail Address/ID of the Companies incorporated after implementation of MCA 21 is already being insisted upon. 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 MCA-21 is operational with validated data. Separately, the registered office addresses of the Companies have been made a part of the Master Company Data available on the portal, free of any charge and the Companies have been called upon to verify their particulars in the Master Data and apply for correction of any of the fields which is not correct or which has undergone a change subsequently. About 80,000 companies have already responded for correction of data in respect of various fields so far. Other alternatives for correction of this data field by way of generation of exception statements from the existing database and the addresses recorded in the latest documents filed by the companies are also being explored. The Ministry is already working on an action plan to address the concern expressed by the Hon'ble Standing Committee and Data Validation/Correction has been identified as a major thrust area under MCA-21 for 2007-08.

[No. G-20018/7/07-BGT]

Recommendation (Sl.No. 2, Para Nos. 51 & 52)

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/ROCs 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.

While the first of the criteria stipulated cast 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 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 a 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'.

Reply by the Government

The recommendations made by the Standing Committee for revising the criteria for identifying a company as 'vanishing' have been noted for compliance. Recognising the need for re-visiting the criteria in accordance with the recommendations of the Hon'ble Committee, the CMS has already constituted a 'Small Group' (consisting of Officials from the MCA, Ministry of Finance and SEBI) to examine this issue carefully keeping in view the legal provisions.

[No. G-20018/7/07-BGT]

Recommendation (Sl.No. 4, Para No. 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. 654798 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 board base the composition of the Committee

on IEPF by providing place therein for the representatives of registered investor's 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.

Reply by the Government

The recommendation of the Standing Committee to broaden the composition of the Committee on IEPF by providing place therein for the representatives of registered investors' associations and suitably amending IEPF Rules, 2001 is under examination.

[No. G-20018/7/07-BGT]

NEW DELHI;
28 November, 2007

7 Agrahayana, 1929 (Saka)

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

MINUTES OF THE NINTH SITTING OF THE STANDING
COMMITTEE ON FINANCE

The Committee sat on Wednesday, the 28th November, 2007 from 1600 hrs. to 1700 hrs. in Committee Room No. 'E', Parliament House Annexe, New Delhi.

PRESENT

Shri Ananth Kumar — *Chairman*

MEMBERS

Lok Sabha

2. Shri Gurudas Dasgupta
3. Shri Bhartruhari Mahtab
4. Shri Rupchand Pal
5. Shri K.S. Rao
6. Shri Magunta Sreenivasulu Reddy
7. Shri M.A. Kharabela Swain

Rajya Sabha

8. Shri Santosh Bagrodia
9. Shri Mangani Lal Mandal
10. Shri S. Anbalagan
11. Shri Moinul Hassan

SECRETARIAT

1. Shri A. Louis Martin — *Joint Secretary*
2. Shri T.G. Chandrasekhar — *Deputy Secretary*
3. Shri G. Srinivasulu — *Deputy Secretary-II*

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee.

3. The Committee, then took up the following draft reports for consideration:—

- (i) Draft action taken Report on the recommendations/ observations contained in the 51st Report on Demands for Grants (2007-08) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment);

- (ii) Draft action taken Report on the recommendations/ observations contained in the 54th Report on Demands for Grants (2007-08) of the Ministry of Statistics and Programme Implementation.
- (iii) Draft action taken Report on the recommendations/ observations contained in the 41st Report on 'Introduction of New Income Tax Return Form';
- (iv) Draft action taken Report on the recommendations/ observations contained in the 52nd Report on Demands for Grants (2007-08) of the Ministry of Finance (Department of Revenue);
- (v) Draft action taken Report on the recommendations/ observations contained in the 53rd Report on Demands for Grants (2007-08) of the Ministry of Planning;
- (vi) Draft action taken Report on the recommendations/ observations contained in the 55th Report on Demands for Grants (2007-08) of the Ministry of Corporate Affairs; and
- (vii) Draft action taken Report on the recommendations/ observations contained in the 43rd Report on 'Efficacy of Reform Process in Capital Market—Recent IPO Scam'.

The Committee adopted the reports at (i), (ii) and (iii) above without any amendment and the reports at (iv), (v), (vi) and (vii) above with modifications as shown in the annexure.

4. The Committee then authorized the Chairman to finalise the reports in the light of the modifications made and present the same to Parliament.

The Committee then adjourned.

ANNEXURE

- (a) Modification made in Chapter-I of the draft action taken report on the 52nd Report on Demands for Grants (2007-08) of Ministry of Finance (Department of Revenue)

** ** *

** ** *

- (b) Modification made in Chapter-I of the draft action taken report on the 53rd Report on Demands for Grants (2007-08) of Ministry of Planning

** ** *

** ** *

- (c) Modification made in Chapter-I of the draft action taken report on the 55th Report on Demands for Grants (2007-08) of Ministry of Corporate Affairs

Para	Line	Modification
10	12	<i>Add the following:</i> "The Committee also desire that the defunct as well as ineffective companies should be struck off from the register at the earliest
12	-	<i>For</i> "The Committee appreciate the initiatives taken by the Ministry of Corporate Affairs to implement the Committee's recommendations with regard to identification of vanishing companies and taking appropriate action against them. The Committee hope that action in all respects will be completed expeditiously and the Committee informed of the final outcome of these initiatives." <i>Substitute</i> "The Committee desire the Government to initiative fresh and effective initiatives expeditiously and they be informed of the outcome of these initiatives."

- (d) Modification made in Chapter-I of the draft action taken report on the 43rd Report on “Efficacy of Reform Process of Capital Market—Recent IPO Scam”.

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APPENDIX

(Vide Para 3 of the introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FIFTY-FIFTH REPORT OF THE STANDING COMMITTEE ON FINANCE (FOURTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2007-2008) OF THE MINISTRY OF CORPORATE AFFAIRS

	Total	% of Total
(i) Total number of recommendations	8	
(ii) Recommendations/observations which have been accepted by the Government [Vide Recommendation at Sl. No. 2 (Para Nos. 45 & 50), 3, 4 (Para No. 72), 5, 6, 7 & 8]	—	71.88%
(iii) Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies [Vide Recommendation at Sl. No. Nil]	—	00.00%
(iv) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee [Vide Recommendations at Sl. Nos. 1 & 2 (Para Nos. 48 & 49)]	—	15.62%
(v) Recommendation/observation in respect of which final reply of the Government is still awaited [Vide Recommendations at Sl. No. 2 (Para Nos. 46, 47, 51 & 52) & 4 (Para No. 71)]	—	12.50%

SIXTY-THIRD REPORT
STANDING COMMITTEE ON FINANCE
(2007-08)

(FOURTEENTH LOK SABHA)

MINISTRY OF CORPORATE AFFAIRS

DEMANDS FOR GRANTS
(2007-08)

*[Action taken by the Government on the Recommendations/Observations
contained in the Fifty-Fifth Report of the Standing Committee on Finance
on Demands for Grants (2007-08) of Ministry of Corporate Affairs]*

Presented to Lok Sabha on 4.12.2007

Laid in Rajya Sabha on 4.12.2007



LOK SABHA SECRETARIAT
NEW DELHI

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COMPOSITION OF STANDING COMMITTEE ON
FINANCE (2007-2008)

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. Gadhavi
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

Rajya Sabha

22. Shri Santosh Bagrodia
23. Shri Raashid Alvi
24. Shri M. Venkaiah Naidu

25. Shri S.S. Ahluwalia
26. Shri Mahendra Mohan
27. Shri Mangani Lal Mandal
28. Shri C. Ramachandraiah
29. Shri Vijay J. Darda
30. Shri S. Anbalagan
31. Shri Moinul Hassan

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu — *Additional Secretary*
2. Shri A. Louis Martin — *Joint Secretary*
3. Shri S.B. Arora — *Director*
4. Shri G. Srinivasulu — *Deputy Secretary-II*
5. Smt. Archana Srivastava — *Sr. Executive Assistant*