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STANDING COMMITTEE ON FINANCE (2010-2011)

FIFTEENTH LOK SABHA

MINISTRY OF CORPORATE AFFAIRS

[Action taken by the Government on the recommendations contained in the Eighteenth Report of the Standing Committee on Finance on Demands for Grants (2010-11) of the Ministry of Corporate Affairs]

THIRTIETH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

December, 2010/*Agrahayana,* 1932 *(Saka)*

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STANDING COMMITTEE ON FINANCE
(2010-2011)

(FIFTEENTH LOK SABHA)

MINISTRY OF CORPORATE AFFAIRS

[Action taken by the Government on the recommendations contained in the Fifteenth Report of the Standing Committee on Finance on Demands for Grants (2010-11) of the Ministry of Corporate Affairs]

Presented to Lok Sabha on 10.12.2010
Laid in Rajya Sabha on 10.12.2010

LOK SABHA SECRETARIAT
NEW DELHI

December, 2010/*Agrahayana,* 1932 *(Saka)*

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19. Shri Manicka Tagore
20. Dr. M. Thambidurai
21. Shri Anjankumar M. Yadav

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* Shri Y.S. Jagan Mohan Reddy, MP has resigned on 29 November, 2010.

Rajya Sabha

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23. Shri Raashid Alvi
24. Shri Vijay Jawaharlal Darda
25. Shri Piyush Goyal
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30. Dr. K.V.P. Ramachandra Rao
31. Shri Y.P. Trivedi

SECRETARIAT

1. Shri A.K. Singh — *Joint Secretary*
2. Shri T.G. Chandrasekhar — *Additional Director*
3. Shri Ramkumar Suryanarayanan — *Deputy Secretary*

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorised by the Committee, present this Thirtieth Report on action taken by the Government on the recommendations contained in the Fifteenth Report of the Committee (Fifteenth Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Corporate Affairs.

2. The Fifteenth Report (15th Lok Sabha) was presented to Lok Sabha/laid in Rajya Sabha on 19 April, 2010. Replies indicating action taken on all the recommendations contained in the Report were furnished by the Government on 23 July, 2010.

3. The Committee considered and adopted this report at their sitting held on 8 December, 2010.

4. An analysis of action taken by Government on the recommendations contained in the Thirtieth 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;
08 *December*, 2010
17 *Agrahayana*, 1932 *(Saka)*

YASHWANT SINHA,
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 the Fifteenth Report (Fifteenth Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Corporate Affairs which was presented to Lok Sabha and laid in the Rajya Sabha on 19 April, 2010.

2. The Report contained 9 recommendations. Action taken notes have been received from the Government in respect of all the recommendations. The action taken notes have been categorized as below:

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

Recommendation Nos. 1, 2, 3, 4, 5, 6, 7, 8 and 9

Total : 9

Chapter : II

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

Total : Nil

Chapter : III

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

Total : Nil

Chapter : IV

(iv) Recommendations/Observations in respect of which final reply of the Government is still awaited:

Total : Nil

Chapter : V

3. Although the Government have accepted in principle all the recommendations of the Committee, the action taken notes furnished by the Ministry of Corporate Affairs reveal instances of inadequacies and inconclusiveness, which have been commented upon in the succeeding paragraphs.

4. The Committee desire that specific replies to the comments contained in Chapter-I of this Report should be furnished to them expeditiously, in any case not later than three months of the presentation of this Report.

A. Investors Grievances and its redressal

Recommendation (Serial No. 5)

5. With regard to the much-neglected area of Investors Grievances and its redressal, the Committee noted with concern that the Investors Grievances Management Cell of the Ministry had been receiving numerous complaints, but the same had not been redressed promptly. It was observed that during the period 1st January, 2010 to 18th March, 2010, the Investors Grievances Management Cell of the Ministry received 239 fresh complaints, while 1251 complaints from the previous year remained pending with the Registrars of Companies (ROCs) for resolution. Out of these cases, about 1365 cases related to Investor Grievances which were lodged on-line through the Ministry's website and were currently pending with the ROCs for resolution. Although the Ministry pleaded that no time limit could be stipulated for settlement of grievances of investors, the Committee were of the view that investors grievances should be redressed in a time bound manner to the satisfaction of the complainant, by putting in place a fast-track mechanism, if required. The Registrars of Companies (ROCs) should be sensitized for this purpose so that investor grievances were taken up and resolved on priority. The Committee wanted to be apprised of the steps taken to galvanize the Investors Grievances Management Cell and the status of pendency therein.

6. In their action taken note the Ministry of Corporate Affairs have submitted as below:—

> "The Ministry of Corporate Affairs has issued the following instructions on 28.06.2010 for the follow-up action to be taken by the Registrar of Companies (ROCs) to galvanize the resolution of investors' grievances:—
>
> (a) All Registrars of Companies shall develop a fast-track mechanism within the provision of Companies Act, 1956 for the resolution of the investors' grievances;

(b) They shall resolve the investors' grievance in a time bound manner to the satisfaction of the complainant;

(c) They shall submit a quarterly report to the Ministry of Corporate Affairs on the number of grievances received by them in the quarter under report including grievances carried forward from the previous quarter and the grievances resolved during the quarter."

All Regional Directors are also directed to monitor the resolution of investors' grievances by ROCs within their jurisdiction to ensure its time bound resolution to the satisfaction of investors and submit a quarterly report to the Ministry.

As per the information furnished by the ministry, resolution status of complaints received from all Regional Directors and Registrar of Companies on 31.3.2010 and 28.06.2010 show that 1301 cases and 1480 cases respectively were pending.

7. The Committee note that in pursuance of their recommendation, the Ministry of Corporate Affairs have issued instructions to the ROCs to galvanise the redressal process of investor grievances. However, the Committee are constrained to observe that the total number of pending cases (1301 on 31.3.2010) rose to 1480 cases as on 28 June, 2010 *i.e.* an increase of 179 cases in three months time. Had the mechanism been put in place as suggested by the Committee, the number of investor grievance cases would not have risen so substantially. The Committee would, therefore, reiterate the need for putting in place an effective fast track mechanism so as to provide immediate relief to investors who have suffered and the ROCs specially sensitized for this purpose. In this connection, the Early Warning System (EWS) developed by the Ministry should be gainfully utilized to inform and caution investors about defaulting companies. The Committee would like to be apprised of the outcome of the action taken in this regard.

B. Vanishing Companies

Recommendation (Serial No. 6)

8. A company would be deemed to be a 'Vanishing Company', if it was found to have failed to file returns with the Registrar of Companies and Stock Exchanges for a period of 2 years since floating an IPO or not maintaining its registered office at the notified address or none of its Directors was traceable. In this regard, the Ministry had sought to impress upon the Committee that since 2001, no company which floated an IPO had been identified as 'Vanishing Company'. When asked about those companies or entities who had defaulted on repayment of public deposits

etc., the Ministry clarified that present definition of 'Vanishing Companies' covered only listed companies. The other types of entities like Private Limited Companies and unlisted companies, who raise deposits from the public, were out of the scope of the present criteria of 'Vanishing Companies'. The Committee were not satisfied with such a narrow definition and scope of 'Vanishing Companies', which had resulted in weak enforcement action against entities defaulting on public money. The Committee had, therefore, recommended that the Ministry should consider widening the scope of 'Vanishing Companies' by broadening its definition so as to include within the statutory ambit those entities collecting huge sums of money from the public by way of IPOs, deposits, insurance and myriad savings schemes.

9. In their action taken note the Ministry of Corporate Affairs have submitted as below:—

> "The Joint mechanism called Coordination and Monitoring Committee (CMC) which was set up by the Ministry and SEBI as a result of announcement of Finance Minister in 1999 Budget Speech for taking stringent action only against unscrupulous promoters who raised monies from investors and misused them. A criteria was adopted by CMC to identify such companies who are then termed as vanishing companies. CMC is not empowered to extend this criteria beyond the listed companies. However, pursuant to the provisions of Section 58 of the Companies Act, 1956, Company Law Board on its own motion or on the application of the depositor pass such orders for repayment of the deposits. Whoever fails to comply with the orders of the Board shall be punishable with imprisonment which may extend to three years and shall also be liable to a fine of Rs. 500 for every day during which such non compliances continue. As far as Insurance companies are concerned, they are also registered with Insurance Regulatory Authority of India (IRDA) and the schemes are regulated by them. The Ministry take action against such companies for violation of the provisions of the Companies Act, 1956 and IRDA for violation in connection with the schemes. The Ministry at the time of incorporation, checks up the object of the company which is in the Memorandum of Association and any object not in accordance with the prevailing laws is not approved. Necessary instructions have been issued to ROCs to monitor strictly the object of the companies which are proposed to be registered."

10. In their action taken reply, the Ministry of Corporate Affairs has stated that the Coordination and Monitoring Committee (CMC) was set up by the Ministry and SEBI for taking stringent action against unscrupulous promoters who raise monies from investors and defraud

them. The Ministry have pleaded that the ambit of CMC is restricted to investments in listed companies. The Committee are of the view that steps should be taken to expand the jurisdiction of the CMC beyond listed companies by involving other regulatory agencies as well so that the joint mechanism can function more effectively. They should, accordingly, widen the scope of definition of "Vanishing Companies" so as to include within its ambit all those entities that collect money from the public in various forms. The Committee expect the Ministry of Corporate Affairs to take proactive steps on this front in order to safeguard the interests of the general public investing their money in listed companies as well as other entities such as private limited companies.

C. Monitoring of IPO proceeds

Recommendation (Serial No. 7)

11. In pursuance of the Committee's earlier recommendation for better coordination between the Ministry of Corporate Affairs and SEBI with regard to monitoring end use of IPO proceeds, the Ministry had informed to have issued instructions for enabling co-ordination between the Ministry, its field offices and SEBI for sharing information and reports filed by companies with regard to utilization of IPO proceeds exceeding Rs. 500 crores. While expressing satisfaction on this count the Committee wanted the Ministry to operationalise this coordination mechanism on-line, so that the process of coordination and monitoring amongst all the concerned agencies becomes institutionalized.

12. In their Action Taken Note, the Ministry of Corporate Affairs have submitted as below:—

"The matter will be taken up with SEBI."

13. The Committee had recommended that the coordination mechanism between the Ministry of Corporate Affairs and SEBI with regard to monitoring usage of IPO proceeds should be operationalised immediately and made on-line. In this regard, the response of the Ministry that 'the matter will be taken up with SEBI' is rather lackadaisical and non-committal. The Committee would therefore, while reiterating their recommendation, expect that the much-needed coordination mechanism between the Ministry and SEBI is made on-line and institutionalised without any further delay so as to bring transparency in utilization of IPO proceeds. The Committee would like to be apprised of the progress made with regard to monitoring of usage of IPO proceeds.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (No. 1)

The Committee note that there has been persistent shortfall in the overall Actual Expenditure (AE non-plan) as compared to the Budget Estimate (BE)/Revised Estimate (RE) during the period 2005-06 to 2008-09; it was Rs. 41 crore in 2005-06, Rs. 22 crore in 2006-07, Rs. 40 crore in 2007-08 and Rs. 28 crore in 2008-09. The Committee are not convinced by the reasons advanced by the Ministry, which indicates lack of seriousness being of casual and routine nature. The Committee would, therefore, expect the Ministry of Corporate Affairs to exercise greater care and diligence in formulating their estimates and incurring expenditure thereon.

Reply of the Government

A summary of Demands for Grants of the Ministry of Corporate Affairs for the last four years (*i.e.* 2005-06 to 2008-09) Plan and Non-Plan is as under:—

(Rs. in crore)

Year	Budget Estimates			Revised Estimates			Actual Expenditure			(-)Savings/(+)Excess		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
2005-06	0	116.27	116.27	0	90.00	90.00	0	75.18	75.18	0	-41.09	41.09
2006-07	0	145.00	145.00	0	145.00	145.00	0	122.58	122.58	0	-22.42	-22.42
2007-08	47.00	154.00	201.00	47.00	138.10	185.00	0	113.66	113.66	-47.00	-40.34	-87.34
2008-09	33.00	170.00	203.00	63.00	160.00	223.00	63.01	142.46	205.47	+30.01	-27.54	+02.47

The major savings/shortfall in expenditure have been in the different Object Heads as under:—

(i) In the Object Head (MC&N) MCA-21 — (e-Governance Project).

(Rs. in crore)

Year	Budget Estimates	Actual Expenditure	(-)Savings/(+)Excess
2005-06	60.00	16.70	(-) 43.30
2006-07	70.83	29.26	(-) 41.57
2007-08	64.28	48.36	(-) 15.92
2008-09	72.31	53.96	(-) 18.35

The Budget provision under the Object Head "Modernization, Computerisation and Networking of Corporate Affairs and its field offices" (MC&N) - (*i.e.* e-Governance Project) could not be utilized fully during the years 2005-06 to 2008-09 because the release of payments to the operator is linked with the achievement of a number of milestones which constitute the conditions precedent for achieving the Project Implementation completion. The actual expenditure incurred was as per the milestone achieved.

In 2005-06, 2006-07, 2007-08 and 2008-09, under Object Head "Modernization, Computerisation and Networking of Corporate Affairs and its field offices" (MC&N), against BE of Rs. 60.00 crore, Rs. 70.83 crore, Rs. 64.28 crore and Rs. 72.31 crore, Actual Expenditure was Rs. 16.70 crore, Rs. 29.26 crore, Rs. 48.36 crore and Rs. 53.96 crore respectively leading to savings/shortfall of expenditure to the extent of Rs. 43.30 crore, Rs. 41.57 crore, Rs. 15.92 and Rs. 18.35 crore respectively.

(ii) In the Object Head: Investor Education and Protection Fund (IEPF).

(Rs. in crore)

Year	Budget Estimates	Actual Expenditure	(-)Savings/(+)Excess
2005-06	2.50	1.92	(-) 0.58
2006-07	5.00	2.55	(-) 2.45
2007-08	5.00	3.10	(-) 1.90
2008-09	5.00	3.57	(-) 1.43

There was savings/shortfall of expenditure to the extent of Rs. 0.58 crore, Rs. 2.45 crore, Rs. 1.90 crore and Rs. 1.43 crore during 2005-06, 2006-07, 2007-08 and 2008-09 respectively under Object

Head "Investor Education and Protection Fund" due to non-receipt of quality proposals from the NGOs/VOs for organizing and conducting workshop/programmes on investor education and awareness.

(iii) In the Object Head: Competition Commission of India (CCI):

(Rs. in crore)

Year	Budget Estimates	Actual Expenditure	(-)Savings/(+)Excess
2005-06	2.70	1.33	(-) 1.37
2006-07	3.00	2.40	(-) 0.60
2007-08	5.00	2.78	(-) 2.22
2008-09	10.00	3.49	(-) 6.51

Consequent upon the stay granted by the Hon'ble Supreme Court, all sanctioned posts for CCI could not be filled up during the financial year 2005-06 and only skeleton staff was functioning. Against BE of Rs. 2.70 crore in 2005-06, an amount of Rs. 1.33 crore was expended leading to shortfall of Rs. 1.37 crore in expenditure. Similarly, against BE in 2006-07 of Rs. 3.00 crore expenditure to the extent of Rs. 2.40 crore was incurred.

In 2007-08 and 2008-09, against BE of Rs. 5.00 crore and Rs. 10.00 crore in the financial years, Actual expenditure was of Rs. 2.78 crore and Rs. 3.49 crore leading to shortfall of expenditure to the extent of Rs. 2.22 crore and Rs. 6.51 crore in the year 2007-08 and 2008-09 respectively due to non-filling up of posts and relatively less expenditure on various activities.

(iv) In the Object Head: Major Works, Lands and Building, (Infrastructure):

(Rs. in crore)

Year	Budget Estimates	Actual Expenditure	(-)Savings/(+)Excess
2005-06	2.90	5.70	(+) 2.80
2006-07	10.00	36.80	(+) 26.80
2007-08	15.00	6.25	(-) 8.75
2008-09	15.00	9.55	(-) 5.45

2005-06: The Ministry had undertaken an objective for creation of its own modern and integrated office complexes at various locations for housing the field offices and was in regular touch with Jaipur Development Authority, Cuttack Development Authority and Chandigarh

Administration for allotment of land. In response, JDA and Chandigarh Administration made allotment of two plots of lands at Jaipur and Chandigarh respectively during this year and the Ministry had to make provision of additional fund at RE 2005-06 for meeting the expenditure towards cost of these lands.

2006-07: In pursuance of creation of infrastructure at various locations, the Ministry purchased built up office spaces at Chennai and Bangalore at an expenditure of Rs. 12.70 crore and Rs. 13 crore respectively for housing the field offices resulting into requirement of additional fund during the year.

2007-08: Due to slow progress of construction of the buildings at Jaipur and Chandigarh and delay in commencement of construction of the building at Cuttack the Ministry did not release further funds to the agencies engaged in the construction work resulting into surrender of funds during the year.

2008-09: There was saving in this head due to delay in completion of the buildings at Jaipur and Chandigarh and the fact that proposal for acquiring land in Mumbai/Delhi could not materialize with the local State Government Authorities.

[Ministry of Corporate Affairs, O.M. No. G. 20018/14/2010-BGT, dated 23 July, 2010]

Recommendation (No. 2)

With regard to the major budget head *i.e.* modernization, computerization and networking, the Committee note that shortfall in actual expenditure continues year after year; as a percentage of AE to BE, the shortfall was 24.77% in 2007-08 and 25.38% in 2008-09. In the year 2009-10 the AE under this head (upto February, 2010) was Rs. 55.66 crore as compared to the RE of Rs. 68.84 crore, resulting in a shortfall of about Rs. 13 crore. The Ministry have stated that their Budget Estimate under this head could not be utilized fully, because the release of payments are linked with the achievement of a number of project milestones, which constitute the Conditions Precedent for achieving the completion of the project. The Committee desire that the Ministry must strive to fully utilize the budgeted funds under this head, as the timely completion of the ongoing computerization and networking programme (MCA-21) of the Ministry is crucial for efficient functioning in important areas like scrutiny by Registrars of Companies (ROCs), operations in Official Liquidators' offices etc. The Committee would, therefore, like networking of the various field offices of the Ministry to be expedited and glitches, if any, in the implementation of the programme be ironed out with the vendors immediately.

Reply of the Government

The Actual Expenditure under the head 'Modernisation, computerisation and networking' was Rs. 66.3780 crore as against the RE of Rs. 68.84 crore. Thus the final shortfall against RE was Rs. 2.4620 crore.

It is submitted that the MCA-21 is a service delivery project built on the business model Built Own Operate Transfer (BOOT). It is different from a normal input-based computerization project as it focuses on 'outcome' – the service delivery. Under the business model, the operator was required to make the investment upfront, operate the system and render services. The Government payback the project cost of Rs. 314 crore in installments spread over a period of six years through Equated Quarterly Installments (EQIs).

Certificate of implementation completion is the condition precedent for beginning of Operation phase of the Project. The Project was rolled out at all the field location as of September 4, 2006. It has been in full scale operation since then but the completion of implementation phase could not be achieved on account of certain pending deliverables by the operator and the testing and certification thereof.

Normal outflow of EQI payment was found impossible, as the release of EQI payment was contingent upon the certificate of implementation completion. The pending deliverables are mainly 43 items identified at the time of Provisional Certification. Some of them are RFP requirements and the balance are operational requirements. The outcome of these items is delayed mainly due to identifying a suitable technology solution and to a greater extent due to external dependency. However, this has neither affected the normal e-filing nor has hindered to smooth running the system. The e-filing operation is fully functional for routine use and the system has been handling the load of daily filings including the filings of the peak seasons in the successive three years.

As per the recommendations of the Empowered Committee constituted for the Project (consisting of Secretary, Corporate Affairs; Secretary, Statistics and Programme Implementation, Secretary, Information Technology and Financial Adviser, Corporate Affairs), 15% of EQI in each quarter was deducted until Quarter-10. Later, after a review by the Empowered Committee, an amount equivalent to 3% of EQI in each quarter has been deducted as 'withhold amount' as against the 15% made earlier.

Subsequent to the last review, substantial progress has been achieved in closure of the partially complete and pending items. It is expected that the targeted goal of final certification would be achieved during the financial year.

The Ministry could have utilized the Budget fully but it deliberately and consciously chose to decide in favour of maintaining of quality of the programme rather than utilization of the budget. Accordingly, whatever became due to be released, strictly in accordance with the provisions of the contract, was finally utilized. The Ministry decided to insist on maintaining the quality of the programme and completion of various critical deliverables rather than utilization of the budget.

The implementation of the programme has made a significant impact on the speed and certainty in delivery of services to the stakeholder which is brought out from the following table:—

S.No.	Nature of Service	Prior to MCA-21	After MCA-21
1.	Name Approval	7 days	1 day
2.	Company incorporations	15 days	1-2 days
3.	Change of name	15 days	3 days
4.	Charge registrations	10-15 days	2 days
5.	Certified copies	10 days	2 days
6.	Annual returns	60 days	Instantaneous
7.	Balance Sheet	60 days	Instantaneous
8.	Change in directors	60 days	3 days
9.	Change in address	60 days	3 days
10.	Inspection of public documents	Visit to ROC	Online

The operational statistics, as on May 31, 2010 is as follows:—

S.No.	Description	Number
(1)	(2)	(3)
	Filing Status as on May 31, 2010	
1.	Average portal hits per day/pages viewed per day	38.91 lakh/5.55 lakh
2.	Total filings through the system till 31.05.2010	102.66 lakh
3.	Maximum number of documents filed on a day (30.10.2009)	48,947

(1)	(2)	(3)
4.	Number of companies registered online	2,60,560
5.	Total DIN issued till date	12.72 lakh
6.	Company records viewed online	12.75 lakh
7.	Number of Balance Sheets filed	15.79 lakh
8.	Number of Annual Returns filed	15.84 lakh
9.	Number of E-stamping transactions up to 31.05.2010	1,55,271
10.	Amount of E-stamp collected up to 31.05.2010	9114.28 lakh
11.	E-filing through VFO (Virtual Front Office)	93%
12.	Online Payment transactions (by volume)	63%
13.	Revenue Receipts	
	• April 04 to March 05	Rs. 576.16 crores
	• April 05 to March 06	Rs. 830.22 crores
	• April 06 to March 07	Rs. 1038.19 crores
	• April 07 to March 08	Rs. 1304.17 crores
	• April 08 to March 09	Rs. 1231.78 crores
	• April 09 to March 10	Rs. 1235.83 crores
	• April 10 to May 10	Rs. 241.29 crores

The successful operation of the program for three successive years and enrichment of company data in electronic format enabled the Ministry for concentration of core regulatory functions like Technical scrutiny, prosecution etc. With the help of MCA-21 system the Ministry has identified substantial number of defunct companies in the Registry and also large number of defaulters in filing statutory returns with the Registrar. In a measure to cleanse the registry and to provide an opportunity to the defaulting companies in becoming compliant to statutory filings, the Ministry has introduced two Schemes – Company Law Settlement Scheme, 2010 and Easy Exit Scheme, 2010 with effect from 30.05.2010. In addition, the electronic data enables the Ministry identification of early warnings through the system.

During the period, in addition to MCA-21 Project, the Ministry has launched an e-Governance system for the Limited Liability Partnership Act, 2008 in April 2009. This has been launched simultaneously of the commencement of the Act. E-filing facility has been made available to the stakeholders and processing of e-forms has been developed in electronic environment.

Enthused from the success of the above two projects, the Ministry has planned computerisation and e-Governance of the Office of Official Liquidators. The project study is currently underway.

In a major improvement in the MCA-21 Project, E-stamping facility for the selected MCA services has been introduced from 13th September 2009. This is an additional feature introduced under the MCA-21 e-Governance programme. Based on specific authorisation, the electronic generation of stamp papers has been introduced to 22 major States and 3 UTs.

The new introduction of e-stamping has reduced the time taken for the important services like Company incorporation, registration of foreign company and approval of changes in the authorized capital etc. It has also established a secure and cleaner system of duty collection to the State Government and the much needed facility of 'anytime and anywhere' operation of business to the stakeholders. Further, the initiative establishes a Green Project, eliminating use of paper drastically.

Improvement is a continuing process, the Ministry is striving hard to expedite closure of pending issues on hand and ensure easy and convenient services to stakeholders. The Hon'ble Standing Committee may consider the above details and accept the submissions made by the Ministry on this account.

[Ministry of Corporate Affairs, O.M. No. G. 20018/14/2010-BGT, dated 23 July, 2010]

Recommendation (No. 3)

The Indian Institute of Corporate Affairs (IICA) has been established under the auspices of the Ministry of Corporate Affairs to provide institutional support to the Ministry, corporates, professionals and other stakeholders. For the year 2010-11, the Ministry had raised a demand of Rs. 81.36 crore under the capital head from the Planning Commission for this project. However, the Planning Commission has provided them with only Rs. 34 crore during this year. According to the Ministry of Corporate Affairs, this shortfall may lead to serious problems in this financial year, as they will be required to make whole of the payments under the capital head by the time the IICA campus is ready in December, 2010. The Ministry have, therefore, already requested the Planning Commission to release this year itself whole of the sanctioned amount of Rs. 81.36 crore. The Committee, while endorsing the plea of the Ministry, would recommend that the Government should release the entire amount sanctioned under capital head for the IICA project, so that the project is completed on schedule.

Reply of the Government

Hon'ble Corporate Affairs Minister had raised the issue regarding allocation of Rs. 81.36 crores under the Capital Head of IICA for the year 2010-11 with the Planning Commission. The matter is under consideration with Department of Expenditure. Release of funds from the sanctioned budget to NBCC is being done as per their demand.

[Ministry of Corporate Affairs O.M. No. G.20018/14/2010-BGT dated 23 July, 2010]

Recommendation (No. 4)

The Committee had been urging the Ministry of Corporate Affairs to fully utilize the Investors Education and Protection Fund, while extensively undertaking activities and campaign for investor education and awareness. In this regard, the Committee are satisfied to note that the Ministry has been able to fully utilize the allotted fund of Rs. 5 crores this year. However, the Committee are of the considered view that routine allocation of Rs. 5 crores for this fund year after year is meagre, considering the magnitude of the work required for investor protection, awareness as also grievances redressal. It may not thus leave much impact on the activities undertaken under this fund. Considering the geographical spread of the country, its diversity and the surge in the number of investors across the country, the Committee feels that the corpus of this fund warrants substantial increase. In this context, it has been suggested to the Committee that a separate fund comprising of the amounts of unclaimed dividend could be legitimately constituted or merged with the IEPF for ensuring greater investor protection. The Committee has, however, been informed that the Ministry of Finance has not agreed to this proposal of constituting a separate fund out of proceeds of unclaimed dividend to be made available to the Ministry of Corporate Affairs. The Committee would recommend that the Government should reconsider the proposal for augmenting the corpus of IEPF by including a part of the amount collected by way of unclaimed dividends with a view to enabling the Ministry of Corporate Affairs to fulfill their statutory obligations of investor awareness, investor protection and grievances redressal.

Reply of the Government

Section 205(C) of the Companies Act, 1956 provides for establishing of the Investor Education and Protection Fund (IEPF). As per the provisions of the said Section, the Fund is to be established by the Government to be maintained as a separate Fund. As the separate fund has not been created, the amounts collected towards IEPF, including unclaimed dividends, are credited into the Consolidated Fund of India.

For fulfilling its statutory obligations of investor awareness, investor protection and grievances redressal, the Ministry gets a budgetary allocation on year to year basis. The plan of activities in the current year has been made. In case additional funds are required, the same will be taken up at RE stage.

[Ministry of Corporate Affairs O.M. No. G.20018/14/2010-BGT dated 23 July, 2010]

Recommendation (No. 5)

With regard to the much-neglected area of Investors Grievances and its redressal, the Committee are concerned to note that the Investors Grievances Management Cell of the Ministry has been receiving numerous complaints, but the same have not been redressed promptly. It is observed that during the period 1st January, 2010 to 18th March, 2010, the Investors Grievances Management Cell of the Ministry received 239 fresh complaints, while 1251 complaints from the previous year remained pending with the Registrars of Companies (ROCs) for resolution. Out of these cases, about 1365 cases related to Investor Grievances lodged on-line through the Ministry's website and are currently pending with the ROCs for resolution. Although, the Ministry have pleaded that no time limit can be stipulated for settlement of grievances of investors, the Committee are of the view that investors grievances should be redressed in a time bound manner to the satisfaction of the complainant, by putting in place a fast-track mechanism, if required. The Registrars of Companies (ROCs) should be sensitized for this purpose so that investor grievances are taken up and resolved on priority. The Committee would like to be apprised about the steps taken to galvanize the Investors Grievances Management Cell and the status of pendency therein.

Reply of the Government

The Ministry of Corporate Affairs has issued the following instructions on 28.06.2010 for the follow-up action to be taken by the Registrar of Companies (ROCs) to galvanize the resolution of investors' grievances:—

(a) All Registrars of Companies shall develop a fast-track mechanism within the provision of Companies Act, 1956 for the resolution of the investors' grievances;

(b) They shall resolve the investors' grievance in a time bound manner to the satisfaction of the complainant;

(c) They shall submit a quarterly report to the Ministry of Corporate Affairs on the number of grievances received by them in the quarter under report including grievances carried forward from the previous quarter and the grievances resolved during the quarter.

All Regional Directors are also directed to monitor the resolution of investors' grievances by ROCs within their jurisdiction to ensure its time bound resolution to the satisfaction of investors and submit a quarterly report to the Ministry.

Category-wise complaints and resolution status received from all Regional Directors and Registrar of Companies from 01.04.2009 to 31.03.2010 and 01.04.2010 to 28.06.2010 respectively as per Annexure A and B.

[Ministry of Corporate Affairs O.M. No.G.20018/14/2010-BGT dated 23 July, 2010]

Recommendation (No. 6)

The Committee understand that a company would be deemed to be a 'Vanishing Company', if it is found to have failed to file returns with the Registrar of Companies and Stock Exchanges for a period of 2 years since floating an IPO or not maintaining its registered office at the notified address or none of its Directors is traceable. In this regard, the Ministry have sought to impress upon the Committee that since 2001, no company which floated an IPO has been identified as 'Vanishing Company'. When asked about those companies or entities who have defaulted on repayment of public deposits etc., the Ministry clarified that present definition of 'Vanishing Companies' covered only listed companies. The other types of entities like Private Limited Companies and unlisted companies, who raised deposits from the public, are out of the present criteria of 'Vanishing Companies'. The Committee are not satisfied with such a narrow definition and scope of 'Vanishing Companies', which has resulted in weak enforcement action against entities defaulting on public money. The Committee, therefore, recommend that the Ministry should consider widening the scope of 'Vanishing Companies' by broadening its definition so as to include within the statutory ambit those entities, who collect huge sums of money from the public by way of IPOs, deposits, insurance and myriad savings schemes.

Reply of the Government

The Joint mechanism called Coordination and Monitoring Committee (CMC) which was set up by the Ministry and SEBI as a result of announcement of Finance Minister in 1999 Budget Speech for taking stringent action only against unscrupulous promoters who raised monies from investors and misused them. A criteria was adopted by CMC to identify such companies who are then termed as vanishing companies. CMC is not empowered to extend this criteria beyond the listed companies. However, pursuant to the provisions of the Section 58 of the Companies Act, 1956, Company Law Board on its own motion or on the application of the depositor pass such orders for repayment of the deposits. Whoever fails to comply with the orders of the Board shall be punishable with imprisonment which may extend to three years and shall also liable to a fine of Rs. 500 for every day during which such non compliances continue. As far as Insurance companies are concerned they are also registered with Insurance Regulatory Authority of India (IRDA) and the schemes are regulated by them. The Ministry take action against such companies for violation of the provisions of the Companies Act, 1956 and IRDA for violation in connection with the schemes. The Ministry at the time of incorporation, checks up the object of the company which is in the Memorandum of Association and any object not in accordance with the prevailing Laws is not approved. Necessary instructions have been issued to ROCs to monitor strictly the object of the companies which are proposed to be registered.

[Ministry of Corporate Affairs O.M. No.G.20018/14/2010-BGT dated 23 July, 2010]

Recommendation (No. 7)

In pursuance of the Committee's earlier recommendation for better coordination between the Ministry of Corporate Affairs and SEBI with regard to monitoring of IPO proceeds, the Ministry have stated to have issued instructions for coordination between the Ministry, its field offices and SEBI for sharing information and reports filed by companies with regard to utilization of IPO proceeds exceeding Rs. 500 crores. While expressing satisfaction on this count the Committee would now like the Ministry to operationalise this coordination mechanism on-line, so that the process of coordination and monitoring amongst all the concerned agencies becomes institutionalized.

Reply of the Government

The matter will be taken up with SEBI.

[Ministry of Corporate Affairs O.M. No.G.20018/14/2010-BGT dated 23 July, 2010]

Recommendation (No. 8)

The Committee are also concerned that the Company Law Board (CLB), which is the quasi judicial body under the Ministry of Corporate Affairs for adjudicating upon various disputes, complaints and grievances relating to corporate matters, has not been functioning in full strength as two vacancies of members has not been filled up so far. This has obviously resulted in large accumulation of pending cases, which has now peaked to as high as 2377 cases (upto February, 2010). The Committee are also alarmed to notice that this pendency also includes 214 cases pertaining to 2004-05, 103 cases of the year 2005-06, 130 cases of 2007-08 and 655 cases of 2008-09, which has still not been settled. The Ministry of Corporate Affairs do not seem to have reviewed or done any analysis of the reasons for such accumulation of pending cases in the CLB. On the other hand, the Ministry seem to be taking shelter behind the quasi judicial nature of the CLB, while pleading that no time frame can be set for clearing pending cases. The Committee, however, would expect the Ministry to use all administrative means available with them like timely filing up of vacancies and providing better infrastructure as also procedural devices such as early hearing applications etc. with a view to minimizing the pendency of cases in the CLB, on whose efficient functioning rests corporate equity and justice.

Reply of the Government

Company Law Board consists of one Chairman, one Vice-Chairman and seven other Members. As a result of Ministry's efforts to fill up the vacancies, at present Chairman and five Members are in position. Shri U.C. Nahta, who has been recommended for appointment as Member, Company Law Board and was sent appointment letter on 03.02.2010, but he has not joined. Remaining one post of Member (Technical) reserved for SC category, could not be filled up as no application from SC category candidate was received. As such, the Ministry has been making all efforts to fill up the vacancies of Members in the CLB. CLB has reviewed the Pendency of the cases with it and all the Members have been instructed by the Hon'ble Chairman to take up old cases on priority basis so that the cases which are pending before the Board for long time can be disposed of without further delay. It is relevant to mention that in some cases High Court and Supreme Court have granted stay as a result of which CLB is unable to dispose of the same. However, with the present strength available in CLB, the Board is trying its best to dispose of the matters as early as possible and the position is being monitored from time to time.

[Ministry of Corporate Affairs O.M. No.G.20018/14/2010-BGT dated 23 July, 2010]

Recommendation (No. 9)

The Committee are happy to note that in pursuance of their recommendation for a fool proof Early Warning System (EWS) to detect corporate frauds, the Ministry of Corporate Affairs have developed such a system to detect potential corporate frauds based on certain risk parameters to generate alerts regarding possibility of existence of unusual tendencies in the financial statements of companies. The Ministry have also stated to have advised the concerned ROCs to carry out scrutiny of documents filed by these companies with a view to validating the alerts generated. The Committee understand that besides taking action on the basis of alerts generated through the EWS, the Ministry also takes up cases for scrutiny, inspection and investigation on the basis of complaints received, adverse press reports, information received from Regional Economic Intelligence Committees, references received from other Ministries and stakeholders, reports of Auditors, etc. The Committee desire that the Ministry should furnish a report on the efficacy of the system put in place to detect corporate frauds and the extent to which it has acted as a deterrent. The Committee would also like to be apprised about the streamlining or fine tuning done in respect of the EWS on the basis of cases detected thus far as well as inputs received from the Registrars of Companies. In this context, the Committee also recommend that the Registrars of Companies should endeavour to cover at least five per cent of the companies filing returns with them, in their random scrutiny of balance sheets and annual returns of the companies.

Reply of the Government

To detect scams, inspections under Section 209A of the Companies Act, 1956 are ordered to examine the books of accounts and other records of the companies. In cases where fraud involves wider public interest, investigation is ordered under Section 235 of the Companies Act, 1956. Even the complaints/references received against the companies are examined by Registrars of Companies. As a normal practice, technical scrutiny of balance sheets and other documents is taken up by ROCs under Section 234 of the Act. Besides, Ministry has devised 10 risk parameters to evolve Early Warning System so as to initiate remedial actions against the corporate frauds.

Under the Early Warning System, 149 companies were short listed based on these 10 risk parameters. All ROCs were asked to carry out non-invasive scrutiny of the latest Balance Sheet and available information in e-Registry. Ministry has received 113 scrutiny reports and the same are being processed. In this exercise, ROCs have been asked to invoke the provisions of Section 234 and submit reports after verification of records/documents of the companies. In addition, ROCs have also been directed to submit reports in respect of the pending 36 companies. Thus, besides the examination of complaints/references, technical scrutiny of balance sheets, inspections and investigations, the Early Warning System has been placed in operation under close monitoring of the Ministry. Besides, provisions are being made in the Companies Bill, 2009 to further strengthen the mechanism to deal with cases of corporate fraud.

[Ministry of Corporate Affairs, O.M. No. G. 20018/14/2010-BGT
dated 23 July, 2010]

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 GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

- NIL -

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH FINAL REPLY OF THE GOVERNMENT IS STILL AWAITED

- NIL -

NEW DELHI;
08 *December*, 2010
17 *Agrahayana*, 1932 *(Saka)*

YASHWANT SINHA,
Chairman,
Standing Committee on Finance.

ANNEXURE A

GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS

Category Wise Complaints and Resolution Status from 01.04.2009 to 31.03.2010.

Date: 01.07.2010 10:53:28 A.M.

RD: ALL
ROC : ALL
Name of the company:
Complaint Initiated/Received: Initiated

S. No.	Type of Complaint	Nature of Complaint	Brought Forward	Received during the period	Total	Disposed off during the Period			Pending at the end of the Period
						Marked Duplicate	Forwarded to External Agency	Resolved	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.	Debentures or Bond	Debenture Certificate	1	0	1	0	0	0	1
2.		Duplicate on submission of Indemnity bond	0	2	2	0	0	0	2
3.		Indemnity Bond	1	0	1	0	0	0	1
4.		Interest	5	13	18	0	0	6	12
5.		Redemption Amount	70	39	109	2	1	25	81

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
6.		Transfer	1	0	1	0	0	0	1
7.	Fixed Deposits-non-receipt	Interest	9	22	31	1	0	14	16
8.		Interest on Delayed Payment	1	8	9	0	0	4	5
9.		Matured Amount	243	324	567	19	6	234	308
10.		Payments as per CLB order	37	1	38	0	0	3	35
11.		Pre-matured payments	3	3	6	0	0	2	4
12.	Miscellaneous-non-receipt	Annual Report	209	405	614	23	5	123	463
13.		Application Money	20	40	60	6	1	24	29
14.		Call Money	1	0	1	0	0	1	0
15.		Interest on Delayed Payment	3	2	5	0	0	0	5
16.		Interest on Delayed Refund Payment	7	3	10	0	0	1	9
17.		Offer for Rights	20	0	20	0	0	3	17
18.		Others	37	8	45	0	0	4	41
19.		Registration of Change in Address	17	23	40	1	0	10	29
20.	Other or Serious Nature Complaint		6	0	6	0	0	1	5

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
21.	Shares or Dividend	Bonus	3	28	31	6	0	5	20
22.		Consolidation	8	0	8	0	0	2	6
23.		Conversion	2	6	8	1	0	3	4
24.		Dividend/Interest Warrant	36	25	61	1	0	13	47
25.		Duplicate on submission of Indemnity bond	10	5	15	0	0	4	11
26.		Non-receipt of Certificate	30	36	66	0	1	9	56
27.		Splitting	3	1	4	0	0	0	4
28.		Transfer	89	20	109	3	0	17	89
		Total	**872**	**1014**	**1886**	**63**	**14**	**508**	**1301**

ANNEXURE B

GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS

Category-wise complaints and resolution status from 01.04.2010 to 28.06.2010

Date: 01.07.2010 11:38:48 A.M.

RD: ALL
ROC : ALL
Name of the company:
Complaint: Initiated/Received: Initiated

S. No.	Type of Complaint	Nature of Complaint	Brought Forward	Received during the period	Total	Disposed off during the Period			Pending at the end of the period
						Marked Duplicate	Forwarded to External Agency	Resolved	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.	Debentures or Bond	Debenture Certificate	1	0	1	0	0	0	1
2.		Duplicate on submission of Indemnity bond	2	0	2	0	0	0	2
3.		Indemnity Bond	1	0	1	0	0	0	1
4.		Interest	12	1	13	0	0	1	12
5.		Redemption Amount	82	6	88	0	0	2	86

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
6.		Transfer	1	0	1	0	0	0	1
7.	Fixed Deposits— non-receipt	Interest	16	3	19	0	0	0	19
8.		Interest on Delayed Payment	5	0	5	0	0	0	5
9.		Matured Amount	336	74	410	6	0	36	368
10.		Payments as per CLB order	35	0	35	0	0	0	35
11.		Prematured payments	4	1	5	0	0	1	4
12.	Miscellaneous— non-receipt	Annual Report	495	57	552	3	0	27	522
13.		Application Money	31	0	31	0	0	2	29
14.		Interest on Delayed Payment	5	3	8	0	0	0	8
15.		Interest on Delayed Refund Payment	9	1	10	0	0	1	9
16.		Offer for Rights	18	0	18	0	0	0	18
17.		Others	41	2	43	0	0	0	43
18.		Registration of Change in Address	30	3	33	0	0	1	32
19.	Other or Serious Nature Complaint		5	3	8	0	0	1	7
20.	Shares or Dividend	Bonus	22	9	31	0	0	2	29

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
21.		Consolidation	6	0	6	0	0	0	6
22.		Conversion	6	1	7	0	0	2	5
23.		Dividend/Interest Warrant	49	4	53	0	0	2	51
24.		Duplicate on submission of Indemnity bond	11	1	12	0	0	0	12
25.		Non-receipt of Certificate	56	12	68	0	0	1	67
26.		Splitting	4	0	4	0	0	0	4
27.		Transfer	91	15	106	0	0	2	104
		Total	**1374**	**196**	**1570**	**9**	**0**	**81**	**1480**

ANNEXURE

MINUTES OF THE EIGHTH SITTING OF THE STANDING COMMITTEE ON FINANCE

The Committee sat on Wednesday, the 8th December, 2010 from 1500 hrs. to 1550 hrs.

PRESENT

Shri Yashwant Sinha — *Chairman*

MEMBERS

Lok Sabha

2. Dr. Baliram (Lalganj)
3. Shri C.M. Chang
4. Shri Bhakta Charan Das
5. Shri Gurudas Dasgupta
6. Shri Nishikant Dubey
7. Shri Bhartruhari Mahtab
8. Shri Rayapati Sambasiva Rao
9. Shri Magunta Sreenivasulu Reddy
10. Shri Manicka Tagore
11. Dr. M. Thambidurai

Rajya Sabha

12. Shri Raashid Alvi
13. Shri Vijay Jawaharlal Darda
14. Shri Moinul Hassan
15. Shri Satish Chandra Misra
16. Dr. Mahendra Prasad
17. Shri Y.P. Trivedi

SECRETARIAT

1. Shri A.K. Singh — *Joint Secretary*
2. Shri T.G. Chandrasekhar — *Additional Director*
3. Shri Ramkumar Suryanarayanan — *Deputy Secretary*

2. The Committee took up the following draft Reports for consideration and adoption:—

(i) Draft Report on action taken by the Government on the recommendations contained in the Eleventh Report (15th Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Finance (Departments of Economic Affairs, Financial Services, Expenditure and Disinvestment);

(ii) Draft Report on action taken by the Government on the recommendations contained in the Twelfth Report (15th Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Finance (Department of Revenue);

(iii) Draft Report on action taken by the Government on the recommendations contained in the Thirteenth Report (15th Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Planning;

(iv) Draft Report on action taken by the Government on the recommendations contained in the Fourteenth Report (15th Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Statistics and Programme Implementation; and

(v) Draft Report on action taken by the Government on the recommendations contained in the Fifteenth Report (15th Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Corporate Affairs.

3. The Committee adopted the draft reports with minor modifications. The Committee also authorized the Chairman to present all the Reports to Parliament in the current session.

The Committee adjourned at 1550 hours.

APPENDIX

(*Vide* Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FIFTEENTH REPORT OF THE STANDING COMMITTEE ON FINANCE (FIFTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2010-11) OF THE MINISTRY OF CORPORATE AFFAIRS

		Total	% of Total
(i)	Total number of Recommendations:	9	—
(ii)	Recommendations/observations which have been accepted by the Government (*Vide* Recommendations at Serial Nos. 1, 2, 3, 4, 5, 6, 7, 8 and 9)	09	100
(iii)	Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies:	Nil	00.00
(iv)	Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee:	Nil	00.00
(v)	Recommendations/observations in respect of which final reply of the Government is still awaited	Nil	00.00