

**STANDING COMMITTEE ON FINANCE**

**(2003)**

**THIRTEENTH LOK SABHA**

**MINISTRY OF FINANCE & COMPANY AFFAIRS  
(DEPARTMENT OF COMPANY AFFAIRS)**

**DEMANDS FOR GRANTS**

**(2003-2004)**

**FORTY-FIRST REPORT**



*Presented to Lok Sabha on 21 April, 2003  
Laid in Rajya Sabha on 21 April, 2003.*

**LOK SABHA SECRETARIAT  
NEW DELHI**

**April, 2003/Chaitra, 1925(Saka)**

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and 09 April, 2003

## COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2003

Shri. N. Janardhana Reddy – Chairman

### **MEMBERS**

#### **LOK SABHA**

2. Shri Omar Abdullah
3. Shri Raashid Alvi
4. Shri Sudip Bandyopadhyay
5. Shri Surender Singh Barwala
6. Shri Ramesh Chennithala
7. Smt. Renuka Chowdhury
8. Dr. Daggubati Ramanaidu
9. Shri Kamal Nath
10. Shri Trilochan Kanungo
11. Shri Rattan Lal Kataria
12. Dr. C. Krishnan
13. Shri M.V.V.S. Murthi
14. Shri Sudarsana E.M. Natchiappan
15. Capt. Jai Narain Prasad Nishad
16. Shri Rupchand Pal
17. Shri Prabodh Panda
18. Shri Prakash Paranjpe
19. Shri Raj Narain Passi
20. Shri Sharad Pawar
21. Shri Pravin Rashtrapal
22. Shri Ramsinh Rathwa
23. Shri Chada Suresh Reddy
24. Shri S. Jaipal Reddy
25. Shri Jyotiraditya Madhavrao Scindia
26. Shri T.M. Selvaganapathi
27. Shri Lakshman Seth
28. Shri Kirit Somaiya
29. Shri Kharabela Swain
30. Shri P.D. Elangovan \*\*

#### **RAJYA SABHA**

31. Dr. Manmohan Singh
32. Dr. T. Subbarami Reddy
33. Shri Murli Deora
34. Shri Prithviraj Chavan
35. Shri S.S. Ahluwalia
36. Shri Swaraj Kaushal \*
37. Shri M. Rajasekara Murthy
38. Dr. Biplab Dasgupta
39. Shri P. Prabhakar Reddy

40. Shri Amar Singh
41. Shri Prem Chand Gupta
42. Shri Palden Tsering Gyamtso
43. Shri Raj Kumar Dhoot
44. Shri Praful Patel
45. Shri Dinesh Trivedi

**SECRETARIAT**

- |    |                        |   |                      |
|----|------------------------|---|----------------------|
| 1. | Shri P.D.T. Achary     | - | Additional Secretary |
| 2. | Dr. (Smt.) P.K. Sandhu | - | Joint Secretary      |
| 3. | Shri R.K. Jain         | - | Deputy Secretary     |
| 4. | Shri S.B. Arora        | - | Under Secretary      |

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\*Nominated vice Sh. Mukhtar Abbas Naqvi w.e.f. 26.3.2003

\*\* Nominated w.e.f. 7.04.2003

## INTRODUCTION

I, the Chairman, Standing Committee on Finance having been authorised by the Committee to submit the Report on their behalf, present this forty first Report on Demands for Grants (2003-2004) of the Ministry of Finance & Company Affairs (Department of Company Affairs).

2. The Demands for Grants of the Ministry of Finance & Company Affairs (Department of Company Affairs) were laid on the Table of the House on 10 March, 2003 Under Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha, the Standing Committee on Finance are required to consider the Demands for Grants of the Ministries/Departments under its jurisdiction and make Reports on the same to both the Houses of Parliament.

3. The Committee took oral evidence of the representatives of the Finance & Company Affairs (Department of Company Affairs) of at their sitting held on 25 March, 2003 in connection with examination of the Demands for Grants (2003-2004) of the Finance & Company Affairs (Department of Company Affairs).

4. The Committee considered and adopted the Report at their sitting held on 9 April, 2003.

5. The Committee wish to express their thanks to the Officers of the Finance & Company Affairs (Department of Company Affairs) for the co-operation extended by them in furnishing written replies and for placing their considered views and perceptions before the Committee.

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

**NEW DELHI;**  
09 April, 2003  
19 Chaitra, 1925(Saka)

**N. JANARDHANA REDDY**  
*Chairman,*  
Standing Committee on Finance

# REPORT

## INTRODUCTORY

The Ministry of Finance and Company Affairs is responsible for the finance of the Central Government. It is concerned with all economic and financial matters affecting the country as a whole, including mobilization of resources for development. It regulates the expenditure of the Central Government, including the transfer of resources of States. The Ministry comprises four Departments namely:-

- i) Department of Economic Affairs;
- ii) Department of Expenditure;
- iii) Department of Revenue; and
- iv) Department of Company Affairs

2. The overall Demands for Grants pertaining to the Department of Company Affairs is as follows:-

	Voted
Demand No. 44 – Department of Company Affairs	54.72 crore

3. The detailed Demands for Grants of the Department of Company Affairs were laid in Parliament on 10<sup>th</sup> March, 2003.

4. In the present Report, the Committee have examined following issues:-

- i) Inspection of Companies
- ii) Vanishing Companies
- iii) National Company Law Tribunal
- iv) Corporate Governance
- v) Corporate Identity Number (CIN)
- vi) Investors' Education and Protection Fund

### **Demand No. 44**

#### **Inspection of Companies**

5. Section 209A of the Companies Act, 1956 empowers the Registrars of Companies and other authorised officers of the Central Government to inspect the books of the accounts and other records of the companies.

6. When asked whether the Department of Company Affairs has adequate manpower to cope-up with the work, the Department in their written reply submitted as under:-

“DCA proposes to take up a number of training programmes for its inspectors to investigate really serious matters. The Department’s proposal to set up a Serious Frauds Investigation Office has been approved by the Government. This will be made operational in the first quarter of the financial year 2003–2004. Against the sanctioned strength of 37 inspecting officers, the Department has 24 officers in position. Against the total number of 5,84,184 companies as on 31-03-2001, the number of officers sanctioned or in position, is very low. Since the number of inspectors is limited (only about 24), efforts are being made to increase these numbers by filling the vacant posts.”

7. In another query when asked whether Department of Company Affairs consider that if the sanctioned strength of 37 was not sufficient to cope up with the work involved, the Department of Company Affairs in its written reply added as under:-

“The actual strength required actually depends on the number of inspections that the Department should carry out annually. Presently 24 inspectors carry out about 200-250 inspections per annum, which is, on the average, about 10 inspections per inspector in a year. The actual number of inspections that the Department should carry out would depend on how these inspections are looked at. If they are complaint based or even based, as they are today, then the number required is lower. However, if the approach is that a certain percentage of companies should necessarily be inspected each year on random basis, then the numbers required will be much higher. Say, for example, that the philosophy is to inspect 1% of all companies each year. Then the Department would need to carry out 6,000 inspections per annum and would require a strength of about 600 inspectors. Suppose, on the other hand, that the approach is to inspect 1% of the public companies, then the Department needs to inspect about 900 companies each year and the number of inspectors required is about 90.

Finalising an approach and arriving at number is one issue. The other issue is whether a large Government department on machinery can actually deliver the quality results that we desire. The large number of vacancies existing in the Department are also on account of the fact that the Department finds it difficult to attract professionals, such as chartered accountants, into Government service. Even when we do get professionals, because of the hierarchical system and other limitations, it may be neither feasible nor advisable to have a very large Department of Company Affairs with hundreds of inspectors. Therefore, the other alternative is to think in terms of outsourcing inspections and limit the Department’s activities to only following up on these inspections. It is for this reason *inter alia* that the Department, has in the recent past, started depending more on inspections under section 235/237 of the Companies Act, 1956 which allows outsourcing of inspections. It is also for this reason that the Shardul Shroff Committee has been asked to examine the feasibility of outsourcing

inspection under section 209A of the Companies Act, 1956 and to suggest suitable amendment in the Companies Act to make it possible.

DCA can take officers from other Department on deputation basis. As per the Recruitment Rules of Indian Company Law Service, the Controlling Authority is empowered:-

- (i) to fill not more than 10% of the vacancies in any of the grades other than Senior Administrative Grade by deputation of suitable officers belonging to an All India Service or a Group 'A' Central Service; and
- (ii) to fill not more than 25% of the vacancies in Senior Administrative Grade by deputation of suitable officers belonging to All India Service or any other Central Service who are eligible to hold the post of Joint Secretary under the Government of India.

However, even for taking officers on deputation, this can be done only against sanctioned posts.”

8. During the oral evidence, the Secretary of the Department of Company Affairs, explained the position as under:-

“I am coming to the fact that number of inspection staff is small. In that also there are some vacancies. To fill up the vacancies, we made out a plan and we have approached the UPSC. The whole process is going on. How can we still improve the quality of inspection? Now in Government to get additional staff sanctioned is always a difficult task. So, we have been thinking of alternative routes. We are thinking that instead of making the inspection a routine response, in the serious cases we should go in for investigation under Section 235 and not merely inspection under 209. That we have increasingly resorted to. I think in the last one year or so, fifteen or sixteen such cases are there as compared to barely one or two cases in the last four or five years. Secondly, we are thinking whether the inspection could be outsourced. You may increase the number of staff but within the Government to have the quality of staff professionally equipped is always difficult, even if you increase the number. So, we have asked the Shagoo Committee to tell us how can we outsource this inspection under 209(a) so as to make them more professional and more effective. Finally, for the most serious cases we are setting up Serious Fraud Office.”

9. In the 86<sup>th</sup> Report of the Standing Committee on Home Affairs on the Demands for Grants (2002-03) of the Ministry of Law, Justice and Company Affairs, the Committee recommended as under:-

“The Committee feels that the inspection of companies who are not performing well or there are complaints against whom be done irrespective of the number. If the Department does not have enough staff to carry out the

inspections, it should demand for more such staff because the Committee is of opinion that a constant monitoring of companies is pre-requisite to improving their health.”

10. During the last three years, progress regarding inspection of books of accounts and other records of companies under Section 209A of the Companies Act 1956 has been stated as under:

Period	No. of Inspections conducted
1999-2000	230
2000-2001	221
2001-2002	244

#### Serious Fraud Investigation Office

Investigations into the recent stock market scam, which are carried out by different agencies, have underscored the limitation of a fractured approach. No agency seems to have a holistic picture of what really happened. In such a situation, it is very difficult to effectively punish the fraudsters. With a view to investigate such frauds by a multi disciplinary team of experts, it has been decided to set a corporate serious fraud office in DCA. This is one of the recommendations of the Naresh Chandra Committee. The Department's proposal to set up Serious Fraud Investigation Office (SFIO) has been considered and approved by the Cabinet.”

11. Explaining the reasons in detail for setting up serious fraud office, the Secretary of the Department of Company Affairs, during the oral evidence, informed as under:-

“You have asked as to why is it that DCA is setting up Serious Fraud Investigation Office. I would like to point out that SFIO as contemplated at the moment is confined to corporate frauds, that is frauds committed in the corporate sector. Within the Serious Fraud Investigation Office, if we depend entirely on our DCA staff, then there is a limitation about the kind of investigation that we can do. So, we found that we need some multi-disciplinary people, some people from other disciplines, like capital market financial transactions, tax administration etc. That is why SFIO is conceived as a multi-disciplinary body.”

12. Replying to the query raised during the oral evidence as to whether the independence of SFIO shall be maintained, the Secretary, Department of Company Affairs, explained as follows:

“The organizational arrangement in the case of the SFIO is the same as in the case of the CBI. The CBI is under the Department of Personel. The Enforcement Directorate is under the Department of Revenue. So also,

there has to be an administrative department where the SFIO is located. So, it is under the DCA.”

13. Explaining further the features of SFIO during the oral evidence, the Secretary of Department of Company Affairs, informed as under:-

“Yes, it is an investigating office under the DCA. It will have a separate Head of Department just like some of the other bodies which are separate.”

14. When asked during the oral evidence, as to whether any legislative change in the Companies Act for the setting up of Serious Frauds Office is required, the Secretary of the Department of Company Affairs replied as under:-

“We are already considering what improvements are required under the Companies Act for various purposes in order to make regulation more effective. For example, Parliament has already made certain changes; certain powers have been given under Sections 235 and 237. So, we are considering that. For the SFIO, whether an entirely new legislation is going to be there or not going to be there, I cannot say at present. But the investigations which it will carry out will be under the Companies Act under Sections 235, 237 and other related powers.”

15. In a written reply to a query in respect of setting up of SFIO, the Department of Company Affairs have stated as under:-

“..... The SFIO would function as an independent office and Director, SFIO would be designated as the Head of the Department for all financial and administrative purposes. It is proposed that SFIO Office will not have regular hierarchical structure like in other Government offices, hence no group ‘C’ and group ‘D’ posts will be created. As a result, it has been proposed that each officer, at each level, be provided with an additional Personal Assistant, over and above, what the officer is entitled to under the rules. In essence, what is proposed is the replacement of a conventional section by strengthening the personal cell of each officer. It is felt that there is no need for a ‘conventional section’ in the proposed office. Apart from savings on the financial front, this is also necessary as the work in SFIO would be of secret and highly confidential nature.

It is also proposed that an empowered committee of Secretaries may be created to (a) screen and approve contractual/deputation appointments at emoluments outside Government scales of pay; (b) allow payment of special allowances to officers on deputation, if so required to attract the best talent from other departments; (c) to permit protection of pay and allowances, if officers are taken on deputation from institutions such as Banks, SEBI etc., and (d) give any general directions that may be necessary for the efficient discharge of its duties by the SFIO and for ensuring adequate cooperation from other agencies/departments in the investigation, prosecution, etc.

This empowered committee may be headed by the Cabinet Secretary, and have Secretaries, Revenue, Company Affairs, Expenditure and Personnel as its members. As and when necessary, other concerned officials such as Secretary Law, Deputy Governor RBI, Chairman SEBI, Director CBI, Chairpersons CBDT and CBEC, Director Revenue Intelligence and Enforcement etc. can be invited. Director SFIO would be the member secretary of this committee.

A smaller Coordination Committee may be formed to supervise and monitor the work of SFIO. The committee will review the decisions of investigations taken by Director. SFIO and also provide the inter-departmental cooperation and co-ordination and requirements that need not be taken to the empowered committee. This Committee would be headed by Secretary, DCA and have as its members Chairman SEBI, Chairpersons CBDT and CBEC and Directors CBI, Revenue Intelligence, Enforcement and SFIO and Joint Secretary, DCA acting as member secretary.”

**16. The Committee regret to note that against a total number of 6,13,667 companies, the sanctioned strength of inspecting officers is only 37 and out of this only 24 Inspecting Officers are in position and rest of the posts are lying vacant. In the opinion of the Committee it is just not possible for 24 officers to inspect around 6 lakhs companies. They wonder as to why the Department had not taken up the matter in right earnest to get first the vacant posts filled and then get the number of sanctioned posts increased. The Standing Committee on Home Affairs while considering Demands for Grants (2002-03) of the Department had also recommended for increasing inspecting staff so as to have constant monitoring of companies which is a pre requisite to improving their health. No action seems to have been taken in this regard by the Department. The Committee are given to understand that one inspector inspects as many as 10 companies on an average in a year and this way the Department is undertaking this work in 200-250 companies in a year. In their opinion this pace is very slow and it will serve no useful purpose. The Department is not carrying inspection work in respect of even 1% of total companies. In view of the above the Committee strongly recommend that immediate steps should be taken to fill up the vacancies and simultaneously efforts may be made to get the sanctioned strength increased. Besides they want that Government should seriously think about undertaking inspections under Section 235/237 of the Companies Act, 1956**

**only by their inspectors and consider the outsourcing of routine inspection under Section 209A.**

**17. The Committee appreciate the proposed setting up of Serious Fraud Investigation Office to investigate corporate frauds. They feel that the proposed SFIO conceived as a multi disciplinary body is a welcome step. They are, however, apprehensive whether its setting up would require any separate legislation or any amendments in the Companies Act will be required so as to ensure its independence. The Committee, therefore, desire that this aspect should be looked into with due seriousness and steps may be taken by the Department well in advance. They also want its jurisdiction may clearly be defined as to leave no scope for any ambiguity or overlapping problem with other regulators like SEBI etc.**

#### **Demand No. 44**

#### **Vanishing Companies**

18. Vanishing Companies, though not defined anywhere, can be termed as 'Fly by night Companies'. These companies appear, collect money from investors and then disappear/vanish. With regard to action taken by Department of Company Affairs against vanishing companies, they have stated in a written reply as under:-

“Before coming out with a public issue of capital, the companies have to comply with the requisite formalities prescribed by SEBI such as the SEBI (Disclosure and Investor Protection) Guidelines. In retrospect, it appears that some promoters had brought out public issue of capital with fraudulent intentions and as a consequence the problem of vanishing companies has arisen.

The Capital Market had witnessed a boom period during 1993-94 and 1994-95 when many new companies tapped the capital market and collected funds from the public through issue of shares/debentures. Some of these companies defaulted in their commitments made to the public while mobilising funds and are not even traceable. The Securities and Exchange Board of India (SEBI) had originally identified 229 listed companies as “vanished”.

Finance Minister in his Budget Speech on 27.2.1999 had, inter alia, stated that a joint mechanism between SEBI and Department of Company Affairs (DCA) would be set up for taking stringent action against unscrupulous promoters who raised moneys from investors and misused them. Accordingly, a Central Coordination and Monitoring Committee co-chaired by Secretary DCA and Chairman SEBI was set up. In the first meeting of this Committee held on 12<sup>th</sup> March, 1999 it was also decided that

Seven Task Forces be set up in Mumbai, Delhi, Chennai, Calcutta, Ahmedabad, Bangalore and Hyderabad with Regional Director/ Registrar of Companies of respective region as convener, and representatives of Regional Offices of SEBI and Stock Exchanges as Members. The main responsibility of these Task Forces is to identify the companies which have disappeared, or which have misutilised funds mobilised from the investors, and suggest appropriate action in terms of Companies Act or SEBI Act. The Coordination Committee has so far met nine times.

The field offices of DCA have taken action against such companies for violation of the provisions of the Companies Act, 1956 and in some cases have tried to enlist assistance of police authorities and general public to ascertain the whereabouts of such companies. A decision was taken to proceed against these companies for compoundable and non-compoundable offences, also carrying the punishment of imprisonment as well. Consequently, 149 prosecutions under Sections 62/63, 68 and 628 of the Companies Act have been launched against the companies and their Directors.

SEBI has debarred 93 companies and 351 Directors under Section 11B of the SEBI Act from raising money from the Capital Market and dealing in the Capital Market in any form, for a period of five years.

Of the 229 companies earlier identified as vanished, 44 have since been found to be regular in filing statutory returns, etc. The list of remaining 185 companies is enclosed alongwith the dates of their incorporation and names of the States where the companies are registered.”

19. In response to the query during the oral evidence as to whether the Department of Company Affairs had conducted any cross-linking of those enlisted 185 vanished companies with the defaulters list made by Reserve Bank of India, the Secretary of the Department of Company Affairs, stated as under:-

“Sir, we have taken this problem of vanishing companies very seriously. We have actually intensified the actions that have been taken or are required to be taken..... So, whatever powers are available to us under the companies Act that we have done. Whatever extra action we should take by reporting to the police that we have done. About the co-ordination of activities between us and SEBI those steps also we have taken.”

20. Answering to another query raised during the oral evidence whether the Department of Company Affairs has put the names of the directors of those enlisted vanished companies on its website, the representative of the Department of Company Affairs, stated as under:-

“Sir regarding the Directors, I would like to give two information. First is that the SEBI itself has debarred 351 Directors from being under Section

11. Their names are there on the SEBI website. What we have done is that whenever we have launched prosecutions we have put those names on the Website. They are available on our website and we keep updating them.”

21. When asked during the oral evidence as to how many companies or directors have been penalised since the last three years and if any single investor has got his money back, the representative of the Department of Company Affairs, stated as under:-

“As for getting the money back, as you are aware, the existing provisions of the Companies Act do not have a provision for disgorgement of money. As a matter of fact, as you have rightly said, the amendment of the Act we have currently proposed is about the disgorgement of money. In fact, our Secretary has already mentioned about this amendment being proposed to the Parliament and hopefully it will be put before Parliament in this Session itself.

22. Asked about the definition or criteria for describing vanishing companies, the representative of the Department of Company Affairs stated as under:-

“We have inherited a situation in which there is no definition of a vanishing company. What happened when this phenomenon took place after the bubble burst was that SEBI and DCI have set up their own criterion for describing vanishing companies. The criteria were companies who do not file their balance sheet or non-filing of the compliance report. We have gone by that criteria.”

### **LIST OF 185 VANISHING COMPANIES**

<b>Sl. No.</b>	<b>Name of the Company</b>	<b>State</b>	<b>Date of incorporation</b>
1.	ADITYA ALKALOIDS	ANDHRA PRADESH	31.07.1991
2.	AQUA DEV INDIA LTD.	ANDHRA PRADESH	31.05.1993
3.	KAMAKSHI HOUSING FINANCE LTD. name changed to Kisha Impex Ltd.	ANDHRA PRADESH	06.12.1994
4.	PREMIER AQUA FARMS LTD.	ANDHRA PRADESH	08.11.1993
5.	CANARA CREDIT LTD.	ANDHRA PRADESH	08.02.1995
6.	DECCAN PETROLEUMS LTD.	ANDHRA PRADESH	21.01.1988
7.	GLOBAL EXHIBITIONS LTD.	ANDHRA PRADESH	08.05.1994
8.	PFIMEX PHARMACEUTICALS LTD.	ANDHRA PRADESH	02.04.1996
9.	PRISM FOODS LTD.	ANDHRA PRADESH	28.07.1995
10.	RAAM TYRES LTD.	ANDHRA PRADESH	13.07.1988
11.	RANK INDUSTRIES LTD.	ANDHRA PRADESH	28.03.1989
12.	SAI GRUHA FINANCE & ENGG. LTD.	ANDHRA PRADESH	24.02.1993
13.	SHAKTI SAI FLOWERS & TISSUES LTD.	ANDHRA PRADESH	06.02.1995

14.	SSP POLYMER INDUSTRIES LTD.	ANDHRA PRADESH	03.08.1995
15.	SUNRISE OLEOCHEMICALS LTD. (Formerly Sunrise Oils Ltd.)	ANDHRA PRADESH	20.08.1992
16.	VINIMETA SPIN STEELS LTD.	ANDHRA PRADESH	08.07.1994
17.	AURIFERROIUS AQUA FARMS LTD.	ANDHRA PRADESH	18.02.1993
18.	MIDWEST IRON & STEEL CO. LTD.	ANDHRA PRADESH	23.08.1990
19.	ROYCE MARINE PRODUCTS LTD.	ANDHRA PRADESH	22.03.1988
20.	ELECTRO FLAMES LTD.	ANDHRA PRADESH	05.11.1984
21.	SHREE VAISHNAVI DYEING & PRINTING LTD.	BIHAR	15.03.1993
22.	AMBUJA ZINC LTD.	BIHAR	17.06.1987
23.	CILSON ORGANICS LTD.	BIHAR	20.01.1988
24.	BODH GAYA CERAMICS LTD.	BIHAR	23.06.1983
25.	ALPS MOTOR FINANCE LTD.	DELHI	13.03.1987
26.	CHIRAU FINANCE INVEST. & LEASING LTD.	DELHI	18.05.1994
27.	CILSON FINANCE & INVST. LTD.	DELHI	10.01.1994
28.	GRIVS HOTELS LTD.	DELHI	23.03.1994
29.	ICP SECURITIES LTD.	DELHI	26.07.1994
30.	LAKSHYA SECURITIES & CREDIT HOLDINGS LTD.	DELHI	10.10.1994
31.	PATLIPUTRA CREDIT & SECURITIES LTD.	DELHI	04.01.1994
32.	SIMPLEX HOLDINGS LTD.	DELHI	18.05.1985
33.	STAR ELECTRONICS LTD.	DELHI	19.03.1993
34.	STAR EXIM LTD.	DELHI	
35.	TACTFUL INVST. LTD.	DELHI	05.08.1994
36.	WELCOME COIR INDUSTRIES LTD.	DELHI	29.12.1989
37.	GOGA FOODS LTD.	DELHI	18.09.1991
38.	KALYANI FINANCE LTD.	DELHI	24.03.1992
39.	PARIKSHA FIN-INVEST-LEASE LTD.	DELHI	11.02.1994
40.	RAJGARH INVESTMENTS LTD.	DELHI	15.07.1987
41.	ZED INVESTMENTS LTD.	DELHI	16.11.1993
42.	BIG STAR FILMS LTD. Formerly MOON HOLDINGS & CREDIT LTD.	DELHI	10.03.1989
43.	DEE KARTAVYA FINANCE LTD.	DELHI	09.03.1990
44.	HARI PARVAT MERRY LAND AND RESORTS LTD.	DELHI	04.03.1992
45.	HOFF LAND INVESTMENT LTD. (VADRA INVESTMENT LTD.)	DELHI	19.04.1985
46.	PEOPLE ENTERTAINMENT WORKS LTD. (VATSA INFOTECH LTD.)	DELHI	23.08.1995
47.	SAIMOH AUTO LINKS LTD.	DELHI	22.03.1985
48.	VATSA WORLD LTD.	DELHI	
49.	ZODIAC CEMENT LTD.	DELHI	30.08.1991
50.	SELFRIEDGE AUTOMOBILE LEASING AND INDUSTRIES LTD.	DELHI	25.05.1991
51.	VERMANI STEEL STRIPS LTD.	DELHI	16.09.1988
52.	ADVANCE BIO-COAL (INDIA) LTD.	GUJARAT	16.12.1994
53.	EFCON SECURITIES LTD.	GUJARAT	07.03.1994
54.	MAA LEAFIN & CAPITAL LTD.	GUJARAT	27.07.1992
55.	SHUBHAM GRANITES LTD.	GUJARAT	08.09.1992
56.	BHAVNA STEEL CAST LTD.	GUJARAT	12.06.1989
57.	ANKUSH FINSTOCK LTD.	GUJARAT	04.08.1993

58.	ARROW SECURITIES LTD.	GUJARAT	17.04.1995
59.	CHARMS CERAMICS LTD.	GUJARAT	24.04.1992
60.	FRONTLINE FINANCIAL SERVICES LTD.	GUJARAT	19.09.1991
61.	INTERACTIVE FINANCIAL SERVICES LTD.	GUJARAT	14.01.1994
62.	NAISARGIK AGRITECH (INDIA) LTD.	GUJARAT	19.10.1994
63.	NILCHEM CAPITAL LTD.	GUJARAT	24.03.1995
64.	SHREEJI DYE-CHEM LTD.	GUJARAT	22.01.1990
65.	SHREE SURGOVIND TRADELINK LTD.	GUJARAT	26.10.1995
66.	SPIL FINANCE LTD.	GUJARAT	29.11.1994
67.	DHRUV MAKHAN (INDIA) LTD.	GUJARAT	06.10.1994
68.	AMI GANGA INFRASTRUCTURE LTD.	GUJARAT	18.02.1995
69.	INTEGRATED AMUSEMENT LTD.	GUJARAT	24.08.94
70.	GIRISH HOTELS RESORTS AND HEALTH FARM LTD.	GUJARAT	04.03.1991
71.	GROWTH AGRO INDUSTTIES LTD.	GUJARAT	03.11.1995
72.	HI-TECH WINDING SYSTEMS LTD.	GUJARAT	25.03.1988
73.	ISHAAN INFRASTRUCTURES & SHELTERS LTD.	GUJARAT	19.10.1995
74.	KESAR GREENFIELD INTERNATIONAL LTD.	GUJARAT	16.09.1982
75.	KOME-ON COMMUNICATION LTD.	GUJARAT	03.02.1994
76.	MOBILE TELE-COMMUNICATIONS LTD.	GUJARAT	28.02.1995
77.	SHRI MAHALAXMI AGRICULTURAL DEVELOPMENTS LTD.	GUJARAT	25.02.1993
78.	SHIVAM APPARELS EXPORTS LTD.	GUJARAT	08.12.1993
79.	NATURO PEST LTD.	GUJARAT	25.10.1992
80.	AASHI INDS. LTD.	GUJARAT	15.02.1991
81.	MANAV PHARMA LTD.	GUJARAT	2.04.1992
82.	NISU FINCAP LTD.	GUJARAT	21.10.1994
83.	SUPER DOMESTIC MACHINES LTD.	GUJARAT	22.03.1997
84.	CITIZEN YARNS LTD.	GUJARAT	03.05.1990
85.	DHAVANIL CHEMICALS LTD.	GUJARAT	25.10.1990
86.	GENUINE COMMODITIES DEVELOPMENT CO. LTD.	GUJARAT	03.03.1992
87.	LYONS INDUSTRIAL ENTERPRISES LTD.	GUJARAT	03.03.1993
88.	MAHA CHEMICALS LTD.	GUJARAT	03.01.1992
89.	MRUG PHARMACEUTICALS LTD.	GUJARAT	24.06.1992
90.	PERFACT WEAVERS LTD.	GUJARAT	15.06.1992
91.	RAHIL INVESTMENT & FINANCE LTD.	GUJARAT	06.01.1993
92.	TIRTH PLASTIC LTD.	GUJARAT	29.09.1986
93.	SUSHIL PACKAGINGS (INDIA) LTD.	GUJARAT	17.06.1992
94.	SWASTIK NITRO AROMATICS LTD.	GUJARAT	26.12.1988
95.	SHREE YAAX PHARMA & COSMETICS LTD.	GUJARAT	09.07.1995
96.	BAHUMA POLYTEX LTD.	GUJARAT	12.11.1986
97.	MARINE CARGO CO. LTD.	GUJARAT	20.06.1989
98.	BLOSSOM BREWARIES LTD.	GUJARAT	10.08.1989
99.	PROTECH CIRCUIT BREAKERS LTD.	GUJARAT	01.04.1991
100.	PROTECH SWITCHGEARS LTD.	GUJARAT	20.12.1989
101.	PARTH INDUSTRIES LTD. (DIZNY	GUJARAT	01.04.1991

	METAPLAST LTD.)		
102.	CROMAKEM LTD.	GUJARAT	01.08.1990
103.	TOPLINE SHOES LTD.	GUJARAT	19.04.1991
104.	GUJARAT BONANZA AUTO	GUJARAT	16.06.1989
105.	NULINE GLASSWARE LTD.	GUJARAT	07.02.1992
106.	READY FOODS LTD.	KARNATAKA	20.05.1988
107.	WINFARM AGRO INDUSTRIES LTD.	KARNATAKA	22.04.1992
108.	ACME SPINNERS LTD.	KARNATAKA	04.06.1992
109.	OCEAN KNITS LTD.	KARNATAKA	30.06.1992
110.	VISION TECHNOLOGY (I) LTD.	KARNATAKA	18.06.1992
111.	CAUVERY SOFTWARE ENGG. LTD.	KARNATAKA	08.01.1991
112.	MOTHER CARE (INDIA) LTD.	KARNATAKA	19.10.1991
113.	FLORA WALL COVERING LTD.	KARNATAKA	28.07.1989
114.	SOUTHERN HERBALS LTD.	KARNATAKA	30.10.1984
115.	SURAJ STONE CORPN. LTD.	KARNATAKA	27.03.1992
116.	SOUTH ASIAN MUSHROOMS LTD.	MADHYA PRADESH	30.06.1994
117.	RAJADHIRAJ IND. LTD.	MADHYA PRADESH	18.11.1969
118.	HI-TECH DRUGS LTD.	MADHYA PRADESH	25.08.1988
119.	MADHYAVART EXXOIL LTD.	MADHYA PRADESH	27.01.1992
120.	STERLING KALKS AND BRICKS LTD.	MADHYA PRADESH	02.03.1990
121.	CALDYN AIRCON LTD.	MAHARASHTRA	19.09.1995
122.	1 HARBAR NETWORK SYSTEM LTD. (Formerly Digital Leasing & Finance Ltd.)	MAHARASHTRA	10.08.1992
123.	FINTECH COMMUNICATION LTD.	MAHARASHTRA	26.04.1995
124.	2 HITESH TEXTILE MILLS LTD.	MAHARASHTRA	09.02.1994
125.	9 ICHALKARNJEE SOYA LTD.	MAHARASHTRA	16.04.1991
126.	3 LYMPHA LABORATORIES LTD.	MAHARASHTRA	23.10.1990
127.	4 PASHUPATI CABLE LTD.	MAHARASHTRA	25.02.1994
128.	1 REALTIME FINLEASE LTD.	MAHARASHTRA	29.07.1991
129.	5 SPARKLE FOODS LTD.	MAHARASHTRA	31.07.1986
130.	6 WALKER (INDIA) LTD.	MAHARASHTRA	25.02.1988
131.	7 VIPUL SECURITIES LTD.	MAHARASHTRA	11.08.1994
132.	1 G-TECH INFOR TRAINING LTD. (GAZI SECURITIES LTD.)	MAHARASHTRA	18.08.1994
133.	BRAKES AUTO (INDIA) LTD.	MAHARASHTRA	11.06.1997
134.	AVI INDUSTRIES LTD.	MAHARASHTRA	09.10.1992
135.	RUSODAY & CO. LTD.	MAHARASHTRA	27.02.1985
136.	SHREE NEELACHAL LABORATORIES LTD. (NEELACHAL TECHNOLOGIES LTD.)	ORISSA	22.07.1991
137.	PRIME CAPITAL MARKET LTD.	ORISSA	28.06.1994
138.	ORISSA LUMINARIES LTD.	ORISSA	06.05.1992
139.	UNIVERSAL VITA ALIMENT LIMITED	ORISSA	28.12.1987
140.	CAREWELL HYGIENE PRODUCTS LTD.	PUNJAB	28.08.1987
141.	SEEMA INDUSTRIES LTD.	PUNJAB	21.01.1985
142.	SUCKCHAIN CEMENT LTD.	PUNJAB	15.05.1991
143.	HALLMARK DRUGS & CHEMICALS LTD.	PUNJAB	12.12.1991
144.	HINDUSTAN TOOLS & FORGINGS LTD.	PUNJAB	11.01.1974
145.	AMIGO EXPORTS LTD.	TAMIL NADU (Chennai)	17.11.1989
146.	UNICORN PHARMA-CEUTICALS INDIA LTD.	TAMIL NADU (Chennai)	09.02.1987

147.	NOVA ELECTRO MAGNETICS LTD.	TAMIL NADU (Chennai)	03.11.1995
148.	NOVEL FINANCE (INDIA) LTD. Changed from P.K. VADUVAMMAL FINANCE & INVESTMENTS LTD.	TAMIL NADU (Chennai)	07.06.1990
149.	CREST WORLD MARINE LTD	TAMIL NADU (Chennai)	28.11.1994
150.	SANGEO SERVICES LTD.	TAMIL NADU (Chennai)	14.09.1995
151.	PANGGO EXPORTS LTD.	TAMIL NADU(Chennai)	09.07.1993
152.	MAA CAPITAL MARKET SERVICES LTD.	TAMIL NADU (Chennai)	14.08.1991
153.	KAYESVEE EDUCATION LTD.	TAMIL NADU (Chennai)	19.01.1995
154.	ASIAN INDUSTRIES AND ENTERPRISES (SA) LTD.	TAMIL NADU (Chennai)	02.08.1982
155.	NAGARJUNA JIYO INDUSTRIES LTD.	TAMIL NADU (Chennai)	25.05.1992
156.	AVR SECURITIES LTD.	TAMIL NADU(Coimbatore)	14.11.1994
157.	GLOBAL BLOOMS (INDIA) LTD.	TAMIL NADU (Coimbatore)	30.12.1994
158.	NAVAKKARAI SPINNERS LTD.	TAMIL NADU (Coimbatore)	02.02.1995
159.	PAPPILON EXPORTS LTD.	TAMIL NADU (Coimbatore)	13.07.1989
160.	SHYAM PRINTS & PUBLISHERS LTD.	TAMIL NADU (Coimbatore)	02.06.1992
161.	BAFNA SPINNING MILLS & EXPORTS LTD.	TAMIL NADU (Coimbatore)	09.02.1990
162.	DENMUR FAX ROLL LTD.	TAMIL NADU (Coimbatore)	29.04.1992
163.	GLOBAL PROPERTY LTD.	TAMIL NADU (Coimbatore)	22.06.1995
164.	RICH CAPITAL & FIN. SER. LTD.	UTTAR PRADESH	16.07.1990
165.	SWARNIMA OIL INDS. LTD.	UTTAR PRADESH	31.05.1994
166.	DANIN LEATHER LTD.	UTTAR PRADESH	20.07.1979
167.	SIDDARTHA PHARMACEUTICALS LTD.	UTTAR PRADESH	31.03.1987
168.	SHEFALI PAPERS LTD.	UTTAR PRADESH	20.03.1991
169.	RIZVI EXPORTS LTD.	UTTAR PRADESH	17.11.1993
170.	RAYNED LABS LTD.	UTTAR PRADESH	30.03.1992
171.	VIDIANI AGRO TECH INDUSTRIES LTD.	UTTAR PRADESH	13.07.1992
172.	AUROMA COKE LTD.	WEST BENGAL	17.09.1993
173.	ESSKAY TELECOM	WEST BENGAL	
174.	SAKET EXTRUSION LTD.	WEST BENGAL	30.04.1992
175.	DAIWA SECURITIES LTD. Name changed to DOVER SECURITIES LTD.	WEST BENGAL	
176.	WESTERN INDIA INDUSTRIES LTD.	WEST BENGAL	01.08.1951
177.	KIEV FINANCE LTD.	WEST BENGAL	02.12.1982
178.	ORIENTAL REMEDIES AND HERBALS LTD.	WEST BENGAL	22.06.1993
179.	QUALITY PHARMACEUTICALS LTD.	WEST BENGAL	04.06.1973
180.	SSK FISCAL SERVICES LTD.	WEST BENGAL	05.02.1990
181.	TUSCON EXPORTS LTD.	WEST BENGAL	12.06.1990
182.	GRAPCO MINING CO. LTD.	WEST BENGAL	12.03.1989
183.	BACCHHAT INVESTMENT AND FINANCE LTD.	WEST BENGAL	23.01.1991
184.	ASIAN VEGPRO INDUSTRIES LTD.	WEST BENGAL	03.02.1994
185.	GLOBAL FINANCE CORPN. LTD.	SHILLONG (ASSAM)	10.08.1982

23. The Committee are pained to observe that a large number of companies have vanished. It appears that no serious efforts have been put in place in this regard and the companies have taken an easy exit from the scene. They find that Department have failed to cross link these companies with the defaulters list prepared by RBI. In their view, their directors are also defaulters and the Government may supply the names of such directors to the RBI for putting up on their website. The Committee have noted that though the names of companies with dates of their incorporation have appeared on the website of Department of Company Affairs but they do not find on it the names of the directors of such vanishing companies and the amount raised by these companies. They also want that this information is made public through the print media.

24. They apprehend that in the absence of cross-linking, the Directors of the vanishing companies are joining the Boards of other companies. Hence, the Committee want the Government to initiate steps in this regard expeditiously. They are surprised to note that not even a single investor has been able to take his money back. The Committee are constrained to note that penal provisions provided under the Companies Act, 1956 by virtue of Sections 62,63,68 and 628 thereof are not adequate to deal with the Directors of vanishing companies effectively. They think that there are some loopholes present in the provisions and the unscrupulous persons could make use of them and escape from the penal provisions. They, therefore, expect the Government to plug the loopholes in an effective manner and also ensure to put in place the remedial measures so that small investors could be able to take their money back.

**Demand No. 44**

**Department of Company Affairs**

**National Company Law Tribunal**

25. The Companies (Amendment) Bill, 2001 introduced in the Lok Sabha on 30.8.2001, was passed in both Houses of the Parliament in December 2002 and the same has received the assent of the President. The legislation lays down provision for the establishment of a National Company Law Tribunal (NCLT) with Benches in several States to decide the question of rehabilitation and winding up of sick companies which

are being looked after by BIFR, AAIFR, CLB and High Court at present. It provides for a modern, efficient and time-bound Insolvency Law to provide for both rehabilitation and winding up of sick companies within a maximum of two years as against the existing system, which takes about 18 to 26 years.

26. With regard to a query as to whether NCLT has come into force and whether it would be able to cope up with the workload, the Department of Company Affairs in their written reply stated as under:-

“The Companies (Second Amendment) Act, 2002 as passed by both Houses of Parliament is yet to be brought into force. Preliminary work relating to establishment of NCLT with respect to its composition, location of benches and other incidental matters is being undertaken and it is expected that NCLT would be operationalised in the next few months. As NCLT will have a President and sixty-two other Members with all India presence and also an appellate forum, there may not be any difficulty in coping up with the workload.”

27. In this connection, Secretary, Department of Company Affairs further explained during their oral evidence :-

“The Companies (Amendment) Act visualizes the setting up of a new tribunal called the National Company Law Tribunal and an Appellate Tribunal. This will have three kinds of functions. One is that, it will takeover all the functions of the Company Law Board. Secondly, it will take over all the functions relating to companies performed in the High Courts. Thirdly, it will take over the functions of the BIFR. As far as last part is concerned, the SICA has to be repealed but the other two parts of the functions of this Tribunal that one can go ahead with. So only for the third part that is the BIFR portion for that we are awaiting the repeal of SICA. We will notify those provisions depending upon the passing of the SICA repeal by Parliament.”

28. He further elaborated as under:-

“We will issue the notification in a very systematic and graduated manner. The first thing is to set up the tribunal itself, to put people in place, select people, supporting staff, the members, the Chairman, etc.

29. When asked regarding the time-frame, the Department had kept for making NCLT fully working, the representative during the oral evidence stated as under:-

“.....As regards time frame, we have done this exercise. As you have rightly said, it requires inter-Departmental consultation. The Department of Expenditure, DOPT, and the Department of Law are involved . It will take about six months to set up the Tribunal and the Competition Commission of India. With best efforts I think we should

be having some kind of institution in place before the end of this year. Regarding full functioning, it is not immediately required because it will take time for it to expand. For example in the CCI, the first thing is supposed to be only advocacy. So only two-three members maximum will be there in the next year. After that, we would have fuller bench. Similarly, in NCLT also, initially the transfer will be only of these two cases – CLB and High Court and then finally the SICA will come. So it is a graduated thing. The Department of Expenditure also wants us to spill it over in a phased programme so that immediate expenditure is also not too much. I think if you ask the question about full functioning of NCLT, you are right it may take two financial years. But that is not because of want of efforts rather it is because we do not require 62 members as of now. We are aiming to get about 30 odd members in this year. We feel that it would be enough to carry on work. When we get the SICA repeal, then we will get the rest of the members in. That is the effort.”

He, however, stated that “till such time as the new tribunal comes into functioning the existing system will continue with its faults.”

30. Standing Committee on Finance in their 33<sup>rd</sup> Report on the Sick Industrial Companies (Special Provisions) Repeal Bill, 2001 have pointed out that the transitional provisions with regard to cases pending with BIFR/AAIFR which shall abate on the repeal of SICA are conspicuous by their absence in the proposed NCLT set up. The Committee felt that it would cause great hardships to the sick companies whose cases are pending with BIFR/AAIFR and a lot of time will be wasted in registering the said abated cases afresh with NCLT. Hence the Committee recommended that Government should bring a suitable amendment in the Sick Industrial Companies (Special Provisions) Repeal Bill, 2001 itself to deal with the abated cases.

31. In response to a query as to which set up, between the two, e.g. NCLT or SICA is there to take care of sick companies, the representative of the Department of Company Affairs explained as under:-

“Sir, regarding SICA, the Cabinet Note has been prepared by the Department of Banking. It has been circulated. So, it is not frozen. I think that they are aiming to introduce it in Parliament in the current Session itself. We have already given our comments. Regarding setting up of the Tribunal and making rules in advance, it would require complete overhaul and change in the system. Right now what happens is that we cannot make a rule because the Department of Law will not even look at it because it cannot anticipate the will of Parliament. Similarly, our proposal to create posts will not be looked by the Department of Expenditure because again they would say that they cannot anticipate the will of Parliament. So, if that

has to be in advance so that it becomes effective immediately, then we have to overhaul the system.”

**32. The Committee observe that after the enactment of Companies Amendment Act, 2002, all the functions which were hitherto performed by CLB, BIFR, AAIFR and High Courts relating to Sick Industrial Companies would be taken over by NCLT. They, however, find that though the Bill has been passed by both the Houses of Parliament and assented to by the President, the notification for its enforcement has not been issued so far. They are given to understand that unless SICA is repealed, the notification cannot be issued.**

**33. As regards SICA, the Committee are informed that the Bill to repeal the SICA is likely to be brought in the current session (Budget Session, 2003) of Parliament. The Committee are given to understand that it will take about six months to set up the Tribunal and by the end of year (2003) the institution (Tribunal) will be in place. In the meantime, identification of Members, Chairman, supporting staff etc with 62 members with all India presence will be taken up.**

**34. The Committee, therefore, recommend that all the necessary steps should be taken by the Department of Company Affairs for enforcement of the said Act expeditiously so that the objective with which NCLT was conceived could be achieved. They further recommend that in the interim period work relating to the selection of members of NCLT too, should be expedited so that NCLT is operationalised within the given time frame.**

#### **Demand No. 44**

#### **Corporate Governance**

**35. With globalization and opening up of the economy the Government felt that the Indian market should be geared to face competition not only from within the country but from outside as well.**

**36. The corporate governance is generally understood to include improvement in shareholder value, accountability to stakeholders, transparency in corporate action by adopting ethical professional practices, etc. As corporate governance can not be specifically codified various provisions relating to compliance disclosures and self-regulatory provisions in the Act constitute the basis for ensuring corporate governance; provisions such as those relating to Audit Committee, Managerial remuneration, buy**

back of shares, Director's Responsibility Statement, etc. can be quoted as some of the examples.

37. With a view to provide greater flexibility and efficiency, enhancing environment for the corporate sector, a Committee under the chairmanship of Shri Naresh Chandra was set up on 21.8.2002 to look into issues relating to auditor-company relationship such as auditing partner's distinction on non-audit work/fee, procedure for appointment of auditors, determination of audit fee, the role of independent Directors and disciplinary procedure for accountants.

38. In reply to a query whether the recommendations of Naresh Chandra Committee have been accepted by the Government in toto, the Department of Company Affairs in their written reply have stated as under:-

The Naresh Chandra Committee submitted its Report to the Hon'ble Minister of Finance & Company Affairs on **23.12.2002**. In the report, the recommendations have been made on various matters including mainly the following: -

- Disqualifications for audit assignments;
- Prohibition of certain non-audit services;
- Independence Standards for Consulting and Other Entities that are affiliated to Audit Firms;
- Compulsory Audit Partner Rotation;
- Auditor's disclosure of contingent liabilities;
- Auditor's disclosure of qualifications and consequent action;
- Management's certification in the event of auditor's replacement;
- Auditor's annual certification of independence;
- Appointment of auditors;
- CEO and CFO certification of annual audited accounts;
- Setting up of independent Quality Review Board;
- Proposed disciplinary mechanism for auditors;
- Defining an independent director;
- Percentage of independent directors;
- Minimum board size of listed companies;
- Disclosure on duration of board meetings / Committee meetings
- Tele-conferencing and video conferencing;
- Additional disclosure to directors;
- Independent directors on Audit Committees of listed companies;
- Audit Committee charter;
- Remuneration of non-executive directors;
- Exempting non-executive directors from certain liabilities;
- Training of independent directors;

- Corporate Serious Fraud Office;

The above recommendations cover various aspects of Companies Act, the Chartered Accountants Act, the Company Secretaries Act, the Cost and Works Accountants Act and some other Acts with which other departments are concerned. The amendments to the Companies Act, the Chartered Accountants Act, the Company Secretaries Act, the Cost and Works Accountants Act on the basis of the recommendation of the Committee report are being examined. Other departments have also been requested to amend their Acts on which the committee has made the recommendations.

The Institute of Chartered Accountants of India (ICAI) has formulated a number of accounting standards. At present these accounting standards are applicable for companies registered under the Act. For reviewing the accounting standards a National Accounting Standards Advisory Committee has been set up which has given its recommendations regarding the accounting standards. These recommendations are being considered by the Department.”

39. During the oral evidence when asked whether the Department of Company Affairs was studying the matter relating to auditors qualifying the accounts in pursuance of the recommendations of the Naresh Chandra Committee Report, the representative stated as under:-

“Regarding the qualification of accounts, what the Naresh Chandra Committee has recommended is that qualified accounts should be sent directly to the Department and, therefore, we are in the process of setting up Special Random Scrutiny Cell which will actually look at these qualified accounts and take action on them. This process is on. Unfortunately we are limited by the fact that we are short of staff. But we are trying our best to fulfill that and somehow within the strength we are trying to do that. We are going to implement Naresh Chandra Committee’s recommendations at the earliest. We have also been discussing with ICAI. We have to use their resources also to help us in setting up those things.”

40. Department of Company Affairs has undertaken active measures for promoting good corporate governance and enhancing the image of the Indian corporate sector.

**41. The Committee note the tools of effective corporate governance such as improvement in shareholders value, accountability to stake holders and transparency in corporate action by adopting ethical professional practices have not been practised in the country. The frequent happening of scams which have resulted into erosion of value of shareholders thereby keeping the accountability**

towards them at bay, bears testimony to this. They note that a High Powered Committee (Naresh Chandra Committee) was set up by the Government which has submitted its report. The Committee note that the said empowered committee have gone into the subject in detail and have recommended for effecting amendments in various Acts such as Chartered Accountants Act, the Company Secretaries Act, the Cost and Works Accountants Act, and the Companies Act etc. The Committee hope that the Government would bring forward necessary amendments at the earliest to ensure better corporate governance.

#### **Demand No. 44**

#### **Corporate Identity Number (CIN)**

42. Based on the recommendation of E-Corporate Working Group, the concept relating to a unique self-explanatory number – corporate identity Number (CIN) for each company was introduced. The CIN has been designed to help easily identify companies by State, industry, ownership or age. It is a 21-digit number. CIN has been considered as extremely useful number since by just seeing the number important information relating to a company – like listing status, its economic activity, state in which it is registered, year of incorporation, ownership category of the company can be known. The Corporate Sector, Chambers of Commerce, Professional Institutes, etc have welcomed the concept of CIN.

43. With regard to the query whether all the companies have been given CIN, the Department of Company Affairs, have written in their reply note as under:-

“Corporate Identity Number (CIN) has been given to all companies except a few companies (about seven thousand companies out of six lakh companies registered under the Companies Act, 1956). The work is likely to be completed by the end of April, 2003.

CIN is a unique self-explanatory number. It has been designed to help easily identify companies by State, industry, ownership and date of incorporation. By just seeing CIN, important information related to a company like listing status, its economic activity, state in which it is registered, year of incorporation, ownership category of the company can be known.”

44. When asked during the oral evidence whether it is made compulsory to identify a company with the CIN in all their documents like letter pads etc, the Secretary of the Department of Company Affairs stated as under:-

“We will take note of it and look into it.”

45. The Committee are happy to note that the concept of Corporate Identity Number (CIN) has been launched and well received by corporate sector, Chambers of Commerce and Professional Institutes. The Committee note with concern that there are about seven thousand companies out of six lakh companies registered under the Companies Act, 1956, to which corporate Identity Number is yet to be provided by the Department. They expect that this work will be completed expeditiously.

46. The Committee are given to understand that information regarding CIN is available on the Departments' website. They feel that it is not sufficient in view of the non-accessibility to the site by small investors. Hence, the Committee recommend that the Department of Company Affairs should take steps to make it compulsory to put Corporate Identity Number on the letter pads etc. and other documents of the Company as well, for the identification of the Companies. In the absence of any publicity in this regard, the Committee feel that desired results can not be achieved. They, therefore, recommend that Government should make elaborate publicity about availability of CIN Number on DCA website so as to enable people, living in remote areas, get the required information about the companies, for their use.

#### **Demand No. 44**

#### **Investors' Education and Protection Fund**

47. The Government is accelerating its movement to educate the investors and inculcating awareness on protection of their rights by organizing such Seminars/Workshops as well as by giving publicity through electronic/print media.

48. In the pursuit of globalisation, India is set to respond to move forward by opening up its economy, removing controls and resorting to liberalization. The natural corollary of this is that the Indian market should be geared to face competition from within the country and outside the county besides making elaborate publicity through media.

49. The following allocations were made in the Budgets during the last three years :-

(Rs. In thousands)

(Non-plan)			
Year	Budget Estimates	Revised Estimates	Actuals
2001-2002		5700	67
2002-2003	3,02,00	3,02,00	
2003-2004	3,00,00	-	-

50. Asked about the Investor Education and Protection Fund, the Ministry in their reply submitted as under:-

- (a) The Government of India (Department of Company Affairs) has constituted an Investor Education and Protection Fund (IEPF), by way of amendment in Companies Act, 1956. The Fund is utilized to create awareness amongst the investors, educate the investors about their rights under various laws of the country through NGOs, education programmes through electronic and print media, organizing seminars and symposia, funding for research activities, coordinating with institutions engaged Investors' Education , awareness and protection activities.
- (b) Amount of Rs. 3.02 crores was budgeted under Investor Education and Protection Fund during the current financial year i.e 2002-03. Of this an expenditure of Rs. 1.85 crores has been sanctioned.
- (c) The fund was set up on 1.10.2001. Therefore, the provision could not be made at BE stage.
- (d) The Fund is administered by a Committee under the chairmanship of Secretary, Department of Company Affairs as provided under section 205C(4) of the Companies Act, 1956. Rules etc. had to be framed. This Committee was constituted on 28.12.2001. The first meeting of the Committee was held on 30.1.2002. There was very little time left to utilize the available amount adequately in 2001-02.
- (e) For the year ended on 31.3.2002 an expenditure of Rs. 67,454/- was incurred. During the year 2002-03 an expenditure of Rs. 40,50,982/- has already be spent and a total of Rs. 1.85 crores will be incurred by the end of this financial year.”

51. Replying to the query raised in oral evidence, the Secretary, Department of Company Affairs admitted that the objective of investors education and protection fund is to be a part of corporate governance and explained as under:-

“There is a Committee. It decides about the expenditure from that Fund. So, whatever decision the Committee takes, action is taken accordingly for the utilization of the funds. In the initial stages, the progress was a little bit slow because the amendment came, rules were framed and then the Committee was set up. The first meeting of the Committee was held, I think, in January last year. So, the initial take off was definitely a bit slow. Then the Committee had also certain thinking about how the fund should be utilized.”

52. During the oral evidence, when asked how far is the investors' education protection fund useful, the Secretary, Department of Company Affairs submitted as under:-

"This is a very valid point. Any step, which the DCA takes, whether in respect of this or any other point, should be something which should be healthy for the growth of the corporate sector. It is not to restrict and confine the growth."

**53. The Committee take note of the fact that rules regarding setting up of Investors Education and Protection Fund were notified by the Government w.e.f. 1.10.2001 but only little has been done in this regard. They feel that people at large are not aware of any such fund and the programmes undertaken. They are pained to note that the Committee set up to administer those funds met only once since its inception. This shows the apathy of the Government towards investor protection.**

**54. They are also not happy to note that the allocations made by the Government during 2002-03 remained under-utilised. The Committee are of the opinion that unless the Government take up this cause in right earnest, the investors protection will be pushed to the back burner. Hence, they want that Government should give due care to this issue and take up the measures for investors protection through making wide publicity in the print as well as electronic media. Seminars in this regard may be conducted in a big way. The work should not be confined to only metros but it should be spread over to cities, towns and even villages. They feel that budgetary allocations for such a purpose should be utilized fully as far as possible and hence want that Government should formulate the budgetary allocations in such a way so as to have no scope for major gaps between BE, RE and Actuals.**

**NEW DELHI;**  
09 April, 2002  
19 Chaitra, 1925 (SAKA)

**N. JANARDHANA REDDY,**  
Chairman,  
STANDING COMMITTEE ON FINANCE

**STATEMENT OF CONCLUSIONS/RECOMMENDATIONS OF THE STANDING  
COMMITTEE ON FINANCE IN THE FORTY-FIRST REPORT (2003-2004)**

<b>Sl. No.</b>	<b>Para No.</b>	<b>Conclusion/Recommendation</b>
1.	16 & 17	<p>The Committee regret to note that against a total number of 6,13,667 companies, the sanctioned strength of inspecting officers is only 37 and out of this only 24 Inspecting Officers are in position and rest of the posts are lying vacant. In the opinion of the Committee it is just not possible for 24 officers to inspect around 6 lakhs companies. They wonder as to why the Department had not taken up the matter in right earnest to get first the vacant posts filled and then get the number of sanctioned posts increased. The Standing Committee on Home Affairs while considering Demands for Grants (2002-03) of the Department had also recommended for increasing inspecting staff so as to have constant monitoring of companies which is a pre requisite to improving their health. No action seems to have been taken in this regard by the Department. The Committee are given to understand that one inspector inspects as many as 10 companies on an average in a year and this way the Department is undertaking this work in 200-250 companies in a year. In their opinion this pace is very slow and it will serve no useful purpose. The Department is not carrying inspection work in respect of even 1% of total companies. In view of the above the Committee strongly recommend that immediate steps should be taken to fill up the vacancies and simultaneously efforts may be made to get the sanctioned strength increased. Besides they want that Government should seriously think about undertaking inspections under Section 235/237 of the Companies Act, 1956 only by their inspectors and consider the outsourcing of routine inspection under Section 209A.</p> <p>The Committee appreciate the proposed setting up of Serious Fraud Investigation Office to investigate corporate frauds. They feel that the proposed SFIO conceived as a multi disciplinary body is a welcome step. They are, however, apprehensive whether its setting up would require any separate legislation or any amendments in the Companies Act will be required so as to ensure its independence. The Committee, therefore, desire that this aspect should be looked into with due seriousness and steps may be taken by the Department well in advance. They also want its jurisdiction may clearly be defined as to leave no scope for any ambiguity or overlapping problem with other regulators like SEBI etc.</p>
2.	23 & 24	<p>The Committee are pained to observe that a large number of companies have vanished. It appears that no serious efforts have been put in place in this regard and the companies have taken an easy exit from the scene. They find that</p>

regard and the companies have taken an easy exit from the scene. They find that Department have failed to cross link these companies with the defaulters list prepared by RBI. In their view, their directors are also defaulters and the Government may supply the names of such directors to the RBI for putting up on their website. The Committee have noted that though the names of companies with dates of their incorporation have appeared on the website of Department of Company Affairs but they do not find on it the names of the directors of such vanishing companies and the amount raised by these companies. They also want that this information is made public through the print media.

They apprehend that in the absence of cross-linking, the Directors of the vanishing companies are joining the Boards of other companies. Hence, the Committee want the Government to initiate steps in this regard expeditiously. They are surprised to note that not even a single investor has been able to take his money back. The Committee are constrained to note that penal provisions provided under the Companies Act, 1956 by virtue of Sections 62,63,68 and 628 thereof are not adequate to deal with the Directors of vanishing companies effectively. They think that there are some loopholes present in the provisions and the unscrupulous persons could make use of them and escape from the penal provisions. They, therefore, expect the Government to plug the loopholes in an effective manner and also ensure to put in place the remedial measures so that small investors could be able to take their money back.

3. 32, 33  
& 34

The Committee observe that after the enactment of Companies Amendment Act, 2002, all the functions which were hitherto performed by CLB, BIFR, AAIFR and High Courts relating to Sick Industrial Companies would be taken over by NCLT. They, however, find that though the Bill has been passed by both the Houses of Parliament and assented to by the President, the notification for its enforcement has not been issued so far. They are given to understand that unless SICA is repealed, the notification cannot be issued.

As regards SICA, the Committee are informed that the Bill to repeal the SICA is likely to be brought in the current session (Budget Session, 2003) of Parliament. The Committee are given to understand that it will take about six months to set up the Tribunal and by the end of year (2003) the institution (Tribunal) will be in place. In the meantime, identification of Members, Chairman, supporting staff etc with 62 members with all India presence will be taken up.

The Committee, therefore, recommend that all the necessary steps should be taken by the Department of Company Affairs for enforcement of the said Act

be taken by the Department of Company Affairs for enforcement of the said Act expeditiously so that the objective with which NCLT was conceived could be achieved. They further recommend that in the interim period work relating to the selection of members of NCLT too, should be expedited so that NCLT is operationalised within the given time frame.

4. 41           The Committee note the tools of effective corporate governance such as improvement in shareholders value, accountability to stake holders and transparency in corporate action by adopting ethical professional practices have not been practised in the country. The frequent happening of scams which have resulted into erosion of value of shareholders thereby keeping the accountability towards them at bay, bears testimony to this. They note that a High Powered Committee (Naresh Chandra Committee) was set up by the Government which has submitted its report. The Committee note that the said empowered committee have gone into the subject in detail and have recommended for effecting amendments in various Acts such as Chartered Accountants Act, the Company Secretaries Act, the Cost and Works Accountants Act, and the Companies Act etc. The Committee hope that the Government would bring forward necessary amendments at the earliest to ensure better corporate governance.

5. 45 & 46       The Committee are happy to note that the concept of Corporate Identity Number (CIN) has been launched and well received by corporate sector, Chambers of Commerce and Professional Institutes. The Committee note with concern that there are about seven thousand companies out of six lakh companies registered under the Companies Act, 1956, to which corporate Identity Number is yet to be provided by the Department. They expect that this work will be completed expeditiously.

The Committee are given to understand that information regarding CIN is available on the Departments' website. They feel that it is not sufficient in view of the non-accessibility to the site by small investors. Hence, the Committee recommend that the Department of Company Affairs should take steps to make it compulsory to put Corporate Identity Number on the letter pads etc. and other documents of the Company as well, for the identification of the Companies. In the absence of any publicity in this regard, the Committee feel that desired results can not be achieved. They, therefore, recommend that Government should make elaborate publicity about availability of CIN Number on DCA website so as to enable

people, living in remote areas, get the required information about the companies, for their use.

6. 53 & 54            The Committee take note of the fact that rules regarding setting up of Investor Education and Protection Fund were notified by the Government w.e.f. 1.10.2001 but little has been done in this regard. They feel that people at large are not aware of any fund and the programmes undertaken. They are pained to note that the Committee to administer those funds met only once since its inception. This shows the apathy of Government towards investor protection.

They are also not happy to note that the allocations made by the Government in 2002-03 remained under-utilised. The Committee are of the opinion that unless Government take up this cause in right earnest, the investors protection will be pushed to the back burner. Hence, they want that Government should give due care to this issue and take up the measures for investors protection through making wide publicity in the print as well as electronic media. Seminars in this regard may be conducted in a big way. They should not be confined to only metros but it should be spread over to cities, towns and villages. They feel that budgetary allocations for such a purpose should be utilized to the fullest extent possible and hence want that Government should formulate the budgetary allocations in such a way so as to have no scope for major gaps between BE, RE and Actuals.

## **MINUTES OF THE EIGHTH SITTING OF STANDING COMMITTEE ON FINANCE**

The Committee sat on Tuesday, 25 March, 2003 from 1500 to 1630 hours to hold the oral evidence of the representatives of Ministry of Finance and Company Affairs (Department of Company Affairs).

### **PRESENT**

**Shri. N. Janardhana Reddy – Chairman**

### **MEMBERS**

#### **LOK SABHA**

2. Shri Raashid Alvi
3. Shri Ramesh Chennithala
4. Shri Trilochan Kanungo
5. Shri Rattan Lal Kataria
6. Dr. C. Krishnan
7. Shri M.V.V.S. Murthi
8. Shri Sudarsana E.M. Natchiappan
9. Capt. Jai Narain Prasad Nishad
10. Shri Rupchand Pal
11. Shri Prabodh Panda
12. Shri Prakash Paranjpe
13. Shri Raj Narain Passi
14. Shri Pravin Rashtrapal
15. Shri Ramsinh Rathwa
16. Shri Chada Suresh Reddy
17. Shri T.M. Selvaganapathi
18. Shri Lakshman Seth
19. Shri Kirit Somaiya
20. Shri Kharabela Swain

#### **RAJYA SABHA**

21. Dr. Manmohan Singh
22. Dr. T. Subbarami Reddy
23. Shri Prithviraj Chavan
24. Shri S.S. Ahluwalia
25. Shri M. Rajasekara Murthy
26. Dr. Biplab Dasgupta
27. Shri Amar Singh
28. Shri Palden Tsering Gyamtso

#### **SECRETARIAT**

1. Shri P.D.T. Achary - Additional Secretary
2. Shri R.K. Jain - Deputy Secretary
3. Shri S.B. Arora - Under Secretary

**DEPARTMENT OF COMPANY AFFAIRS**

**AT 1500 hours**

1. Shri Vinod Dhall, Secretary, DCA
2. Shri Deepa Jain Singh, Additional Secretary & Financial Adviser
3. Shri Rajiv Mahrishi, Joint Secretary
4. Shri R.D. Joshi, Joint Secretary
5. Shri R. Chandrasekhar, Joint Secretary, Information Technology
6. Shri Paul Joseph, Economic Adviser
7. Shri V.S. Rao, Director Inspection & Investigation
8. Shri R. Vasudevan, Director Inspection & Investigation
9. Shri A.N. Bokshi, Chief Controller of Accounts
10. Shri Neerabh Kumar Prasad, Director
11. Smt. Mukta Nidhi Samnotra, Deputy Secretary
12. Shri Rajesh Malhotra, Deputy Secretary

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

3. The Committee then took oral evidence of the representatives of Ministry of Finance & Company Affairs (Deptt. of Company Affairs) on Demands for Grants (2003-2004) of the Ministry of Finance & Company Affairs (Deptt. of Company Affairs) and other related matters.

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

5. The evidence was concluded.
6. A verbatim record of proceedings has been kept.

*The witnesses then withdrew.*

(The Committee then adjourned )

**MINUTES OF THE TENTH SITTING OF STANDING COMMITTEE ON  
FINANCE**

**The Committee sat on Wednesday, 09 April, 2003 from 1500 to 1550 hours.**

**PRESENT**

**Shri. N. Janardhana Reddy – Chairman**

**MEMBERS**

**LOK SABHA**

2. Shri Ramesh Chennithala
3. Shri Trilochan Kanungo
4. Shri Rattan Lal Kataria
5. Shri Sudarsana E.M. Natchiappan
6. Shri Rupchand Pal
7. Shri Prabodh Panda
8. Shri Ramsinh Rathwa
9. Shri T.M. Selvaganapathi
10. Shri Lakshman Seth
11. Shri Kirit Somaiya
12. Shri Kharbela Swain

**RAJYA SABHA**

13. Dr. Manmohan Singh
14. Shri Prithviraj Chavan
15. Shri Swaraj Kaushal
16. Shri Praful Patel
17. Shri Dinesh Trivedi

**SECRETARIAT**

- |    |                        |   |                      |
|----|------------------------|---|----------------------|
| 1. | Shri P.D.T. Achary     | - | Additional Secretary |
| 2. | Dr. (Smt.) P.K. Sandhu | - | Joint Secretary      |
| 3. | Shri R.K. Jain         | - | Deputy Secretary     |
| 4. | Shri S.B. Arora        | - | Under Secretary      |

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee. The Chairman also welcomed Shri Swaraj Kaushal on his nomination as a member of the Committee.

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5. Thereafter, they took up for consideration the draft report on the Demands for Grants (2003-2004) of the Ministry of Finance & Company Affairs (Department of Company Affairs) and adopted the same without any amendment.

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9. The Committee authorised the Chairman to finalise the Reports in the light of modifications as also to make verbal and other consequential changes arising out of the factual verification and present the same to both the Houses of Parliament.

*The Committee then adjourned.*

