



news flash

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UPDATE FROM THE MINISTRY OF CORPORATE AFFAIRS

Background

The Ministry of Corporate Affairs (“MCA”) have been providing relaxations from applicability of various provisions of the Companies Act, 2013 (“Act”) as the lockdown has resulted in many companies being unable to manage the required compliances within the prescribed timelines. We are summarising the recent changes in the Act:

1. Extension of Time for holding an Annual General Meetings (“AGM”)

The Act provides that the first AGM of a newly incorporated company must be held within nine months from the end of the financial year, and in subsequent years it must be held within six months of the close of the financial year (i.e. by 30th September). In the latter case, the Registrar of Companies (“ROC”), has extended the timeline for holding the AGM by a period of three months for all unlisted companies, without requiring the companies to file an application for extension of time for holding of an AGM. Pursuant to the relaxation, all unlisted companies can now convene their AGM on or before 31st December, 2020, subject to time gap between two AGMs not exceeding fifteen months.

The circular also clarifies that the extension shall be applicable to:

- pending applications which are yet to be approved by the ROC; and
- applications which were rejected by the ROC for extension of time.

2. Amendment to the Companies (Acceptance of Deposits) Rules, 2014

The companies registered as start-up with the Ministry of Commerce and Industry, under the Companies (Acceptance of Deposits) Rules, 2014 (“**Deposit Rules**”) were allowed to receive an amount up to Rs. 25,00,000 by way of convertible note (convertible into equity shares or repayable within a period of five years from the date of issue) in a single tranche, from a person. Pursuant to the amendment to Deposit Rules vide notification dated 7th September, 2020, the tenure for repayment of received amount is increased from five years to ten years, to help start-up companies in retaining the funds into the business for longer period.

Further, private companies registered as a start-up were allowed to accept deposits from shareholders of the company without any upper limit, for a period of five years from the date of incorporation. The said period of five years for accepting deposit from shareholders is now extended to ten years pursuant to the aforesaid notification. The said amendment to the Deposit Rules will allow the start-up companies to raise funds from shareholders and use it for longer period, without falling in purview of deposits.

The above measures show the constant endeavour of the MCA to facilitate and boost the growth of the companies while keeping in mind the implications of the pandemic COVID-19.

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