

## **Govt plans to lower fines on companies to boost compliance**

By Sidhartha TNN | Nov15, 2019, 12.13 PM IST

As part of its efforts to improve compliance, the government is set to lower penalties under the Companies Act while offering concessions to startups, smaller entities and farmer producer companies.

A company law panel is expected to recommend lower penalties—half of that levied on larger companies—for startups, smaller entities, single-person companies and farmer producer organisations. The move will come as a big relief not just for India Inc but for other entities, which together make up for a majority of the companies registered in the country.

There will be respite for loss-making companies, including relaxation in compensation and other steps to enable these entities to hire non-executive or independent directors. This move will also benefit startups as several of them are loss-making and often find it tough to comply with some of the provisions of the Companies Act.

The move is part of the amendments that have been finalised by the Company Law Committee, headed by corporate affairs secretary Injeti Srinivas, which is expected to submit its recommendations in a day or two. The 11-member panel, which also has banker Uday Kotak and lawyer Shardul Shroff, has identified about 60 amendments to the Companies Act, including around 45 related to dropping criminal prosecution. The plan is to move a bill to amend the Companies Act during the winter session of Parliament that starts next week.

One of the key themes is to lower penalties to incentivise companies to come into the legal fold. Sources told TOI that the idea is to link penalty to gravity of default, impact on public interest and size of the company. “The government wants improved compliance instead of burdening them with a liability that will be difficult to meet,” said a source.

In recent months, the corporate sector has been critical of the government, which has tightened processes through steps such as mandatory verification of directors and companies as well as proposed test for directors. Through the

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latest set of amendments, the government will make a fresh attempt to address concerns of the corporate sector after having amended the law on multiple occasions in recent months.