

STUDENTS' ECONOMIC FORUM

*To kindle interest in economic affairs...
To empower the student community...*



www.sib.co.in



ho2099@sib.co.in



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Theme 269

CORPORATE SOCIAL RESPONSIBILITY (CSR)

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Theme No. 269 : CORPORATE SOCIAL RESPONSIBILITY (CSR)

A well informed customer will make the policy makers as well as organisations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organisations and improve the quality of goods and services produced.

The "SIB Students' Economic Forum" is designed to kindle interest in economic affairs in the minds of our younger generation. We highlight one theme in every monthly meeting of the "Forum". In India, The concept of CSR is governed by clause 135 of the Companies Act, 2013, which was passed by both Houses of the Parliament, and had received the assent of the President of India on 29 August 2013. The Ministry of Corporate Affairs has notified Section 135 and Schedule VII of the Companies Act 2013 as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 to come into effect from April 1, 2014. This month, we may discuss this topic..

How does the Act define "CSR"?

The Act defines CSR as activities that promote poverty reduction, education, health, environmental sustainability, gender equality, and vocational skills development. Companies can choose which area to invest in, or contribute the amount to central or state government funds earmarked for socioeconomic development. The act does, however, specify that companies "shall give preference to the local area and areas around where it operates."

What is the guiding principle in formulation of the CSR rules?

CSR is the process by which an organization thinks about and evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies. CSR is not charity or mere donations. CSR is a way of conducting business, to visibly contribute to the social good. Socially responsible companies do not limit themselves to using resources to engage in activities that increase only their profits. They use CSR to integrate economic, environmental & social objectives with the company's operations and growth.

What are the provisions of sec: 135 of the Companies Act & the Companies (CSR) Rules, 2014?

With effect from April 1, 2014, every company, private limited or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities. Contribution to any political party is not considered to be a CSR activity and only activities in India would be considered. Profits from any overseas branch of the company, including those branches

that are operated as a separate company would not be included in the computation of net profits of a company. Dividends received from other companies in India which need to comply with CSR obligations would not be included in computing net profits of a company.

What are the major requirements under section 135?

1. Constitution of a Board Committee: The CSR Committee of the Board to be constituted with 3 or more members with at least one independent Director.
2. Minimum Spending: Every Company has to spend at least 2% of average net profits (before taxes) in the last 3 financial years and specify the reason if the spending is less than 2%.
3. Reporting: Every company has to make a report in the format prescribed in the draft rules beginning from the financial year 2014-15.

How does a company formulate its CSR policy?

The Companies Act 2013 requires the CSR Committee to consist of at least three Directors, including an independent Director. The requirement of an independent Director is exempted in the case of unlisted public companies and private companies. The committee for a private company /foreign company should have a minimum of 2 members. A company can undertake its CSR activities through a registered trust or society, a company established by its holding, subsidiary or associate company or otherwise, provided that the company has specified the activities to be undertaken, the modalities for utilization of funds as well as the reporting and monitoring mechanism. Companies can also collaborate with each other for jointly undertaking CSR activities; provided that each of the companies is able to individually report on such projects. A company can build CSR capabilities of its personnel or implementation agencies through institutions with established track records of at least three years, provided that the expenditure for such activities does not exceed 5% of the total CSR expenditure of the company in a single financial year.

What are the functions of the CSR Committee?

1. Formulate and recommend to the Board, a CSR Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII
2. Recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and
3. Monitor the CSR Policy of the company from time to time.
4. Prepare a transparent monitoring mechanism for ensuring implementation of the projects / programmes / activities proposed to be undertaken by the company.

What are the responsibilities of the Board of Directors?

1. To ensure that at least 2% of average net profit of last 3 preceding years is spent on CSR activities every year.
2. To approve the CSR Policy after considering recommendations of CSR Committee.
3. To disclose CSR policy and initiatives in Board's report and Company's website
4. To ensure that activities reflected in CSR policy are actually undertaken by company.

5. If the company does not spend 2% of net profits as required, then Board to report the reasons in the Board's report.

Which all activities may be included by companies in their CSR Policies (SCHEDULE VII)?

Activities relating to:

1. Eradicating hunger and poverty and malnutrition, promoting preventive healthcare and sanitation and making available safe drinking water.
2. Promoting education; including special education and employment enhancing vocation skills especially among children, women, the elderly and the differently abled and livelihood enhancement projects.
3. Promoting gender equality, empowering women; setting up homes and hostels for women and orphans, setting up old age homes, day care centres, and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
4. Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro-forestry, conservation of natural resources and maintaining quality of soil, air and water.
5. Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up of public libraries; promotion and development of traditional arts and handicrafts.
6. Measures for the benefit of armed forces veterans, war widows and their dependents.
7. Training to promote rural sports, nationally recognised sports, and Paralympics sports and Olympic sports.
8. Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women.
9. Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government.
10. Rural development projects.

What are the important points in the implementation of CSR activities?

- Tax treatment of CSR spend will be in accordance with the IT Act as may be notified by CBDT.
- A Company may set up an organization which is registered as a Trust or Company under section 8 of the Act, or Society or Foundation or any other form of entity operating within India to facilitate implementation of its CSR activities in accordance with its stated CSR Policy.
- A company may also conduct/implement its CSR programmes through Trusts, Societies, or Section 8 companies operating in India, which are not set up by the company itself.
- Companies may collaborate or pool resources with other companies to undertake CSR activities and any expenditure incurred on such collaborative efforts would

qualify for computing the CSR spending.

- Only such CSR activities will be taken into consideration as are undertaken within India.
- Only activities which are not exclusively for the benefit of employees of the company or their family members shall be considered as CSR activity.
- Company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities.
- Format of annual report on CSR initiatives to be included in the Board report by qualifying companies has been prescribed under draft Rules.

What are the guidelines in the implementation of the CSR programme?

1. Governance: The CSR committee will be responsible for preparing a detailed plan on CSR activities, including the expenditure, the type of activities, roles and responsibilities of various stakeholders and a monitoring mechanism for such activities. The CSR committee can also ensure that all kinds of income accrued to the company by way of CSR activities should be credited back to the community or CSR corpus.
2. Reporting: The new Act requires that the Board of the company shall, after taking into account the recommendations made by the CSR committee, approve the CSR policy for the company and disclose its contents in their report and also publish the details on the company's official website.
3. Business Responsibility Reporting (BRR) : The other reporting requirement mandated by the Government of India, including CSR is by the SEBI, mandating the top 100 listed companies to report their ESG (Environmental Social Governance) initiatives. The BRR requires companies to report their performance on the nine NVG (National Voluntary Guidelines) principles.
4. CSR strategy: refers to what the company expects to achieve in the next three to five years and incorporates the vision, mission and goals on a broader level. It also entails how it plans to achieve these in terms of organisation and approach.
5. CSR Policy: CSR policy refers to what the company expects to achieve over the next year. The guidance provided in the Act and the draft rules is that it should exclude normal business activities and list out the projects /programmes it plans to undertake including 'the statement of intent reflecting the ethos of the company, broad areas of CSR interest and an overview of activities to be undertaken'.

What is the 2 per cent requirement?

The CSR committee must ensure that the company spends "at least 2 per cent of the average net profits" and if it fails to spend this amount on CSR, the Board must disclose the reason in its annual report. The requirement will apply to any company that is incorporated in India, whether it is domestic or a subsidiary of a foreign company, and which has (1) net worth of Rs. 5 billion or more (US\$83 million), (2) turnover of Rs. 10 billion or more (US\$160 million), or (3) net profit of Rs. 50 million or more (US\$830,000) during any of the previous three financial years.

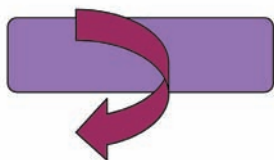
ROLE OF THE CSR COMMITTEE & THE BOARD

Net Worth \geq Rs. 500 crores

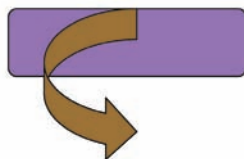
Turnover \geq Rs. 1000 crores

Net Profit \geq Rs. 5 crores

CSR COMMITTEE



BOARD



3 or more directors with at least 1 independent director	Form a CSR Committee
Formulate and recommend a CSR policy to the Board	Approve the CSR Policy
Recommend activities and the amount of expenditure to be incurred	Ensure implementation of the activities under CSR
Monitor the CSR policy from time to time	Ensure 2% spend & disclose reasons for not spending the amount (if any)

*Your comments and feedback on this publication may be sent to Staff Training College,
The South Indian Bank Ltd., Thrissur 680 001 or by E.mail: ho2099@sib.co.in*

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