

# Year-end Review : Ministry Of Company Affairs On The Path Of Reforms

27 December, 2005

**REFORMS RELATING TO PROFESSIONAL INSTITUTES - ICAI, ICSI AND ICWAI :** The Ministry of Company Affairs has been moving ahead on the path of legislative and administrative reforms, intended to improve the quality of service delivered to various stakeholders. In the winter session of the Parliament, the government introduced amendment to the legislation governing Chartered Accountants, Company Secretaries and Cost & Works Accountants to equip these professionals, who cater to the needs of the corporate sector, to face competition from global players in the international market, as also to bring greater transparency and accountability in conduct of affairs of these professional bodies. The amendment Bills were passed by both the houses of the Parliament.

**CONCEPT PAPER ON LIMITED LIABILITY PARTNERSHIP LAW :** In view of the increasing role of services sector in the national economy, the wide range of disciplines in which such services can be offered and the growing number of professionals, the government recognised the need for a new corporate form to enable professional expertise to organise and provide a range of services to the corporate sector in a comprehensive and efficient manner. As a first step in such consultative process, the Ministry has placed a Concept Paper on Limited Liability Partnership (LLP) Law on its website inviting opinions as well as suggestions from all interested by December 31, 2005, for consideration on various aspects of LLP Law.

**ACTION AGAINST VANISHING COMPANIES :** Due to concerted efforts of the Ministry, 114 vanishing companies and their defaulting officers have been traced and action initiated against them. The number of vanishing companies now stands at 115. FIRs have been filed in over a 100 cases and support of NGOs in the field of investor protection has been enlisted. Advertisements have been issued in the media listing out the defaulters with a view to invite actual sufferers to assist the authorities in taking the cases to their logical conclusion. The Ministry has also addressed all State governments seeking their cooperation in tracing out the defaulters.

**SIMPLIFIED EXIT SCHEME 2005 :** The Ministry launched a Simplified Exit Scheme 2005 (SES 2005) to offer an easy exit route for companies which were either not functional since inception or had ceased to be functional and liked to discontinue the business. The Scheme was in operation from 1st February, 2005 to 31st August, 2005. A total of 26,483 companies have opted to avail of exit under this scheme.

**COMPREHENSIVE REVISION OF COMPANIES ACT, 1956 :** An Expert Committee (Dr JJ Irani Committee) constituted to advise on the enactment of a new companies law to address the changes taking place in the economy, enable adoption of internationally accepted best practices and provide adequate flexibility for timely evolution of new arrangements to address the changing requirements of the corporate sector and make our companies globally competitive, submitted its report to the government on 31st May 2005. The government examined the recommendations of the Committee alongwith the comments thereon received from various stakeholders. The draft law is being prepared and the process is expected to be completed at the earliest.

**EXPERT GROUP FOR STREAMLINING THE PROSECUTION MECHANISM :** The Ministry constituted an Expert Group on 4th May, 2005 under the Chairmanship of Shri O.P.Vaish, Senior Advocate, to examine issues relating to streamlining the prosecution mechanism under the Companies Act, 1956. The Report of the Group, submitted to the Ministry on 19th October, 2005, is under examination.

**INSOLVENCY REFORMS :** One of the major problem areas relating to corporate functioning in the country has been the slow liquidation process. In this process, the value of the assets is significantly reduced. The Ministry has taken several steps to speed up the liquidation process and improve upon the recovery rate within the existing legal framework. This issue is also being appropriately addressed in the new company law for which the exercise is on. It is also expected that once the National Company Law Tribunal is fully operationalised, the procedural delays in liquidation will come down drastically.

**MCA21 E-GOVERNANCE PROJECT :** The Ministry launched a major e-Governance Project, known as MCA21, on 1st March, 2005. The Project aims at transforming MCA into a paperless, modern, service-oriented, quality-conscious and customer-centric organisation and envisages shifting entire business process of the Registrar of Companies (RoCs) to e-Governance mode. On completion, the Project will virtually eliminate the physical interface between the companies and the RoCs and all services, such as registration of new companies, filing of annual returns and balance sheets and also viewing of documents etc. will be available to the public online through internet. This would enable transparency as well as speedy monitoring of non-compliance by the companies.

**STRENGTHENING AND ACTIVATING ENFORCEMENT MACHINERY INCLUDING SFIO :** The inspection and investigation mechanism of the Ministry has been strengthened. 210 inspections and 23 investigations were ordered during the year 2004-05

as against 46 inspections and 9 investigations ordered during 2003-04. The Serious Fraud Investigation Office (SFIO) has been functioning well and out of 30 cases referred to it so far, 8 have already been completed. Other cases are under investigation. Scrutiny, inspection and investigation mechanism is being further strengthened to see that defaulters are punished at the earliest. The process will get a boost once the MCA21 e-governance project gets fully operational.

**PROTECTION OF INTERESTS OF INVESTORS** : Dedicated investor protection cells were opened and made functional at three levels. An on-line Investors' Grievances Redressal System has been developed and made fully operational. A dedicated website, <http://www.watchoutinvestors.com>, which is a national registry of defaulters, has also been launched. Investor Education & Protection Fund (IEPF) under the Companies Act, 1956 has been activated and reputed NGOs are contributing by taking up various programmes aimed at educating the investors. The investor protection measures are proposed to be further strengthened in the proposed new company law.

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