

## **Latest Amendments of Companies Act, 2013**

### **Introduction:**

The Ministry of Corporate Affairs (MCA) introduced substantial amendments to the Companies Act, 2013 by its notification dated 27th of October, 2023 through the Companies (Management and Administration) Second Amendment Rules, 2013, and the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023. These revisions were aimed at fostering transparency in corporate governance and came into immediate effect upon their publication in the Official Gazette, ensuring swift implementation.

### **Appointment of Designated Person for Reporting Significant Beneficial Owner:**

Under the Companies (Management and Administration) Second Amendment Rules, 2013, a pivotal change was introduced concerning beneficial ownership. Every company is now mandated to designate a person responsible for providing information to the Registrar of Companies, regarding beneficial interests in the company's shares. This designated person could be a company secretary, key managerial personnel such as the Managing Director or Manager, or any director in the absence of a company secretary or key managerial personnel. The responsibilities of this designated person include furnishing and cooperating in providing information to the Registrar of Companies about beneficial interests in the company's shares.

As per the definition under the Act read with the rules made thereunder, a small company means a company, other than a public company, having paid up share capital not exceeding Rs. 4 crores and turnover not exceeding Rs. 40 crores. Further, the following cannot be a small company – (A) a holding company or a subsidiary company; (B) a company registered under section 8; or (C) a company or body corporate governed by any special Act.

**Analysis:** This step marks a proactive approach toward enhancing transparency. By designating specific individuals accountable for reporting beneficial ownership, companies are better equipped to comply with regulatory requirements. This ensures that relevant authorities have access to accurate and timely information, fostering a more accountable corporate environment and strict law implementation.

### **Mandatory Dematerialization for Private Companies:**

The Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023 introduced mandatory dematerialization for all securities of private companies, excluding small companies and government companies. Immediate compliance is required, with a timeline of 18 months provided from the closure of the financial year (FY 22-23). Private companies falling under these rules are obligated to obtain an International Securities Identification Number (ISIN) for existing securities, facilitate dematerialization, and ensure their promoters, directors, and Key Managerial Personnel hold dematerialized securities. From October 1, 2024, all securities must be issued in dematerialized form, and shareholders are required to obtain a Permanent Account Number and a demat account.

**Analysis:** The shift toward mandatory dematerialization signifies a significant leap toward modernization and digitization in the corporate sector. By transitioning to dematerialized securities, private companies enhance efficiency in trading and settlement processes. Additionally, the involvement of ISINs adds a layer of security and traceability, reducing the risks associated with physical securities.

### **Bearer Share Warrants under the Erstwhile Companies Act, 1956:**

For public companies that issued share warrants under the erstwhile Companies Act, 1956, the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023 mandate specific actions within defined timelines. Companies must report details of these warrants within three months of the Amendment's commencement. Furthermore, within six months, these companies must inform warrant holders of the mandatory conversion of share warrants into dematerialized form. Failure to surrender the share warrants will result in their conversion and transfer to the Investor Education and Protection Fund.

**Analysis:** The abolition of bearer share warrants reflects a proactive approach in aligning with global corporate practices. By requiring conversion into dematerialized form, companies enhance transparency and eliminate complexities related to tracking ownership. This step fosters investor confidence and strengthens the regulatory framework.

**Conclusion:** In conclusion, these amendments represent a paradigm shift in the Indian corporate landscape. By mandating designated persons for reporting beneficial ownership, enforcing dematerialization, and eliminating bearer share warrants, the regulatory framework has been fortified. This not only ensures compliance but also promotes a culture of integrity and accountability within corporate entities. As companies navigate these changes, embracing digitization and enhanced reporting mechanisms will be pivotal, ushering in a new era of transparent and responsible corporate governance in India.

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