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Behind The Boardroom Doors: Decoding the Dynamics of Company Law in India

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Abstract

This paper examines the evolution and impact of India's Company Law on the nation's business climate. Rooted in the British colonial legacy, India's Company Law has undergone significant transformation post-independence. The 2013 Companies Act marks a new era, replacing the 1956 Act and comprehensively governing Indian companies. The paper meticulously analyzes the 2013 Act, exploring its provisions on company formation, director duties, shareholder rights, audits, and corporate social responsibility. Particular focus is placed on the Securities and Exchange Board of India's (SEBI) role in enforcing the Act and ensuring corporate governance. Furthermore, the research investigates the Act's influence on business operations in India, particularly for small and medium enterprises (SMEs). It assesses how the law facilitates or impedes business activities. Finally, the paper conducts a comparative analysis of India's Company Law with other major economies. This comparison aims to identify strengths and weaknesses within India's legal framework, offering valuable insights for policymakers, legal professionals, and businesses. By comprehensively examining India's Company Law, this paper seeks to deepen the understanding of the nation's business legal landscape and pinpoint potential areas for improvement. Lastly, this paper explores the ESG reporting landscape in India and how BRSR reporting is evolving in India and how major Indian corporates are utilizing their scale of operations to leverage ESG ratings in their favor.

Keywords: *Company Law, India, ESG Reporting, Corporate Governance, Directors' Duties, National Company Law Tribunal (NCLT), Business Responsibility and Sustainability Report (BRSR),*

Introduction

India's company law landscape revolves around a comprehensive legal framework governing the birth, life, and eventual closure of companies. The Companies Act of 2013 acts as the central piece of legislation, replacing the older 1956 Act and introducing substantial changes to how companies are managed and operate. Compared to its predecessor, the 2013 Act is more concise, containing 470 sections as opposed to the 1956 Act's 658. This streamlined structure streamlines regulations related to company governance, management, and day-to-day operations. The Act allows for the creation of various company structures, including private limited, public limited, one-person companies, and non-profit entities. It lays out the incorporation process, including the essential documents – the Memorandum and Articles of Association. The Act mandates a minimum number of directors for each company and clearly defines their responsibilities, obligations, and potential liabilities. It also introduces new provisions regarding board meetings, including the use of video conferencing and remote director participation.

The Act brings stricter regulations for audits and auditors. Auditors have enhanced responsibilities, and the role of audit committees is strengthened to ensure thorough financial oversight. The Act incorporates several measures to boost transparency and responsible corporate practices. It mandates the appointment of independent and female directors, along with the establishment of committees like the nomination and remuneration committee. India stands out as one of the few countries to enforce mandatory Corporate Social Responsibility (CSR) spending through this Act.

The Insolvency and Bankruptcy Code (IBC), introduced in 2016, complements the Company Law framework. It provides a unified structure for handling insolvency cases involving companies, partnerships, and individuals. The IBC prioritizes business continuity and offers a streamlined process for resolving financial distress. The code has introduced key entities like the Insolvency and Bankruptcy Board of India and Insolvency Professionals who play critical roles in corporate insolvency resolution. This code has significantly improved India's ranking in the World Bank's Ease of Doing Business Index, particularly when it comes to resolving insolvency.

Framework of Company Law in India and incorporation of a company

The process of incorporation of a company in India is governed by the Companies Act, 2013, and the Companies (Incorporation) Rules, 2014. The Act and the Rules provide a comprehensive procedure for the incorporation of different types of companies, including private limited, public limited, one-person, and not-for-profit companies.

Types of Companies

The Companies Act provides for the incorporation of various types of companies, each with its own set of requirements:

Private Limited Company: A private limited company is a company that has a minimum of two and a maximum of 200 members. It restricts the right to transfer its shares and prohibits invitations to the public to subscribe to its shares or debentures.

Public Limited Company: A public limited company is a company that has a minimum of seven members and no limit on the maximum number of members. It can invite the public to subscribe to its shares or debentures.

One-Person Company (OPC): An OPC is a company with only one person as a member. The concept of OPC was introduced in India through the Companies Act, 2013 to support entrepreneurs who on their own are capable of starting a venture by allowing them to create a single person economic entity.

Not-for-Profit Company (Section 8 Company): A Section 8 Company is a company established for promoting commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object. The profits, if any, or other income is applied for promoting only the objects of the company and no dividend is paid to its members.

The process of incorporation involves several steps:

Obtaining Digital Signature Certificate (DSC): The first step in the incorporation process is obtaining the digital signature certificate of the directors, which is required for filing the e-forms of the company for incorporation.

Obtaining Director Identification Number (DIN): Every individual intending to be appointed as director of a company must apply for a DIN.

Name Approval: Decide on a name for the company and check for its availability.

Filing of Incorporation Forms: Once the name is approved, the next step is to file the incorporation forms with the Registrar of Companies (ROC). This includes the Memorandum of Association (MOA) and Articles of Association (AOA).

Issuance of Certificate of Incorporation: Upon verification, the ROC issues a Certificate of Incorporation, and the company comes into existence.

Ministry of corporate affairs and its website

The Ministry of Corporate Affairs (MCA) is an Indian government ministry that is primarily concerned with the administration of the Companies Act 2013, other allied Acts and rules & regulations framed thereunder mainly for regulating the functioning of the corporate sector in accordance with the law. It is

also responsible for administering the Competition Act, 2002 to prevent practices having an adverse effect on competition, to promote and sustain competition in markets, to protect the interests of consumers through the commission set up under the Act. Besides, it exercises supervision over the three professional bodies, namely, Institute of Chartered Accountants of India(ICAI), Institute of Company Secretaries of India(ICSI) and the Institute of Cost Accountants of India (ICAI) which are constituted under three separate Acts of the Parliament for proper and orderly growth of the professions represented by these bodies. The MCA has a vital role in the Indian market's health and stability. It does this by ensuring transparency and accountability in corporate governance and disclosures. The MCA also protects the interests of investors, particularly small investors.

The official website of the Ministry of Corporate Affairs is a comprehensive resource providing access to information on corporate laws and regulations in India. The website is user-friendly and is designed to provide easy access to various services and information to different stakeholders like corporates, professionals, investors among others. The website provides a host of services including access to Acts, Rules & Regulations, Circulars & Notifications, and a variety of other data related to companies in India. It also provides services like name availability check, Director Identification Number (DIN) status, company or LLP master data, etc.

One of the key features of the MCA website is the MCA21 portal. MCA21 is an e-Governance initiative of Ministry of Company Affairs (MCA), Government of India that enables an easy and secure access to MCA services in a manner that best suits the businesses and citizens. MCA21 is the official site for filing electronic filings under the Companies Act. The website also provides a wealth of information and resources for investors. This includes information on investor protection, how to lodge investor complaints, and even investor education and protection fund.

In conclusion, the Ministry of Corporate Affairs plays a crucial role in the regulation and administration of companies in India. Its website serves as a one-stop resource for all information related to corporate affairs in India. It is an essential tool for anyone interested in understanding the corporate landscape in India.

The Rise of ESG Reporting in India: A Journey of Transparency and Accountability

ESG (Environmental, Social, and Governance) reporting in India has undergone a significant transformation in recent years. The journey began in 2009 with the Ministry of Corporate Affairs (MCA) issuing voluntary guidelines on Corporate Social Responsibility (CSR). Since then, the landscape has evolved rapidly with the introduction of various frameworks like Business Responsibility Reporting (BRR), Integrated Reporting (IR), National Guidelines on Responsible Business Conduct (NGRBC), and the latest iteration - the Business Responsibility and Sustainability Report (BRSR).

A Push for Transparency: Mandatory ESG Disclosure

A pivotal moment arrived in 2020 when the Securities and Exchange Board of India (SEBI) introduced a disclosure framework. This made it mandatory for the top 100 listed companies to submit annual

Business Responsibility Reports (BRRs), detailing their ESG initiatives and performance. This move aimed to increase transparency and hold companies accountable for their social and environmental impact.

The Pillars of ESG Reporting: Frameworks and Standards

The most common methods of ESG reporting in India involve publishing annual sustainability reports and integrated annual reports. These reports adhere to frameworks like GRI Standards and the Integrated Reporting Framework.

Stakeholder Demand Drives Change

Stakeholders are increasingly demanding greater transparency from businesses regarding their ESG initiatives. The COVID-19 pandemic has further amplified this need, highlighting the urgency of addressing environmental and social issues. Building a resilient and sustainable business ecosystem has become critical in the "new normal." Simply acknowledging ESG issues is no longer enough. Businesses must demonstrate effective management strategies and transparent reporting to meet stakeholder expectations.

Investor Focus on ESG Factors

Investors are placing greater emphasis on ESG factors when analyzing company performance. The range of ESG issues they consider is broadening, encompassing aspects like carbon emissions, human rights records, and board diversity. Additionally, the ESG reporting framework is becoming more complex and diverse.

Addressing Climate Change: The TCFD Framework

In light of growing concerns about climate change, investors are particularly interested in how companies are implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). These recommendations provide a framework for companies to systematically report the impact of climate risks and opportunities. This allows investors to better analyze a company's potential financial exposure to climate change.

Room for Improvement: The Need for Depth and Quality

While acknowledging the importance of this information, recent research revealed significant discrepancies across countries and sectors regarding responsiveness to TCFD recommendations. The depth of disclosures on climate risk exposure and resilience needs improvement, highlighting a gap in the quality and comprehensiveness of company reports.

The Future of ESG Reporting in India: BRSR Takes Center Stage

The future of ESG reporting in India is marked by rapid evolution driven by stakeholder demand for transparency and accountability. The BRSR framework, introduced by SEBI in 2021, is at the forefront

of this change. It mandates ESG reporting for the top 1,000 listed companies, aiming to enhance transparency and responsible business practices.

BRSR: A Comprehensive Framework

The BRSR framework is designed to bring greater clarity and detail to company sustainability initiatives. It signifies a shift from the BRR to a more comprehensive report aligning with international standards. BRSR is implemented in two phases: a voluntary phase (FY 2021-22) followed by a mandatory phase for the top 1,000 companies by market capitalization (FY 2022-23 onwards).

Decoding the BRSR Framework

The BRSR framework is divided into two sections. The first part focuses on general disclosures about the company, its business, and directors. The second part delves into managing and disclosing business responsibilities. This section has two sub-sections: Section A outlines principles-based disclosures based on the nine principles of the NGRBCs, covering areas like environmental impact, product life cycle sustainability, employee well-being, and corporate governance. Section B focuses on sector-specific disclosures aligned with the Sustainability Accounting Standards Board (SASB) standards, providing more detailed information based on the company's industry.

The BRSR encourages companies to disclose climate-related risks and opportunities in line with TCFD recommendations. This facilitates better alignment with global trends and enhances investor understanding of climate-related financial risks.

BRSR Core: Refining the Metrics

SEBI recently introduced BRSR Core, a subset of BRSR with the aim of establishing measurable criteria for reporting on the nine principles. This shift emphasizes measurable, outcome-oriented ESG metrics with robust methodologies for data verification. The BRSR Core framework includes parameters for reporting on aspects like greenhouse gas emissions, water and energy footprint, waste management, employee well-being and safety, gender diversity, and inclusive development.

The Board of Directors: Steering the Course of a Company

The Board of Directors acts as the backbone of a company's governance structure. They hold immense responsibility, guiding the company's strategic direction, ensuring legal and ethical compliance, and ultimately safeguarding the interests of shareholders. The Companies Act, 2013, establishes a comprehensive framework outlining the appointment process, duties, and overall responsibilities of directors.

Building the Team: Director Appointments

The process for appointing directors is clearly defined in Section 149 of the Companies Act, 2013. The Act mandates a minimum number of directors based on the company type:

- **Public Companies:** A minimum of three directors are required.
- **Private Companies:** At least two directors must be appointed.
- **One Person Companies (OPC):** A single director is sufficient.

While companies can appoint more directors for broader perspectives, the Act sets a general limit of fifteen. However, exceeding this limit is possible with a special resolution passed by the company.

Introducing Independent Oversight: The Role of Independent Directors

The concept of independent directors is a key innovation introduced by the Act. These directors are crucial for ensuring unbiased decision-making. An independent director is someone free from any significant financial or personal ties to the company, its founders, management, subsidiaries, or affiliates, which could potentially influence their judgment. The Act mandates that certain classes of companies must have at least one-third of their total directors classified as independent.

A Director's Duty: Acting with Integrity

Section 166 of the Act lays out the specific duties of directors. These duties emphasize acting in accordance with the company's articles of association and always acting in good faith. Directors are expected to:

Promote the company's objectives for the collective benefit of its members.

Make decisions that serve the best interests of the company as a whole, considering employees, shareholders, the community, and the environment.

Guiding the Ship: Board Meetings

The first official Board of Directors meeting must occur within 30 days of the company's incorporation. Following this initial meeting, the Act mandates a minimum of four board meetings held annually. The Act also embraces technological advancements, allowing board meetings to be conducted through video conferencing or other audio-visual means, facilitating participation regardless of location.

Empowering Committees: Specialized Teams for Enhanced Governance

- The Companies Act, 2013, empowers the Board of Directors to establish specific committees for focused attention on critical areas. Some of the most common committees include:
 - **Audit Committee:** Oversees the company's financial reporting and internal controls.
 - **Nomination and Remuneration Committee:** Recommends candidates for board positions and determines director compensation.
 - **Stakeholder Relationship Committee:** Manages relationships with stakeholders like employees, customers, and suppliers.
 - **Corporate Social Responsibility Committee:** Develops and oversees the company's social responsibility initiatives.

- These committees play vital roles in supporting the Board of Directors by undertaking specific tasks and providing expert advice.

A Foundation for Success

The Board of Directors plays a critical role in ensuring a company's success and sustainability. The robust framework established by the Companies Act, 2013, empowers directors with the necessary tools and guidance to fulfill their responsibilities effectively. By maintaining a deep understanding of their duties as outlined in the Act, directors can steer the company towards a prosperous future, safeguarding the interests of all stakeholders

The NCLT: Ensuring a Fair Playing Field for Indian Businesses

Established in 2016, the National Company Law Tribunal (NCLT) has become a key player in keeping India's corporate world running smoothly. Acting as a referee, it tackles a wide range of legal issues companies face. This ensures businesses play by the rules, protects the interests of everyone involved (investors, employees, etc.), and creates a healthy environment for companies to thrive.

Resolving Disputes: A Multifaceted Role

The NCLT deals with a broad spectrum of corporate law problems. Imagine a company and its shareholders disagreeing – the NCLT provides a neutral ground to find a fair solution. Thinking about a merger or acquisition? The Tribunal ensures everything is done legally and protects everyone involved. Even in situations where a company is struggling financially, the NCLT helps with restructuring or, if necessary, closing down the company in a fair and efficient manner. These are just a few examples – the NCLT's reach extends to many other corporate legal issues.

Expertise Makes the Difference

The NCLT has offices strategically located across India, each with a team of experts. The leader, typically a retired or active judge, brings a wealth of legal experience to the table. They're joined by a specialist in corporate law and regulations, ensuring a well-rounded approach to decision-making.

Avoiding Delays: Streamlining the Process

To prevent conflicting decisions from different courts, the NCLT has exclusive authority over specific matters. This means companies and individuals can be confident the NCLT is the right place to get their legal issues resolved quickly and efficiently, by a team specifically equipped to handle the complexities of corporate law.

Nationwide Presence: Making Access Easy

The NCLT's offices are spread across India's major cities, making it convenient for companies and individuals to get the legal help they need. This ensures everyone has equal access to the Tribunal's services.

Building on the Past: Addressing Old Issues

The NCLT streamlines corporate dispute resolution by taking over cases previously handled by other legal bodies. This means there's no more confusion about where to go for legal help.

Beyond Disputes: Protecting Investors

While resolving disagreements is a major function, the NCLT also plays a vital role in protecting those who invest in companies. By ensuring businesses follow the law and act ethically, the Tribunal creates a more transparent and accountable corporate environment. This ultimately protects investors from being misled or taken advantage of. If someone disagrees with an NCLT decision, they can appeal to the National Company Law Appellate Tribunal (NCLAT). Established in 2013, the NCLAT provides a platform for challenging NCLT rulings. The Supreme Court of India is the final authority on points of law.

A Pillar of Corporate Governance

The National Company Law Tribunal plays a critical role in upholding ethical standards in India's corporate sector. With its efficient dispute resolution mechanisms, expert teams, and nationwide presence, the NCLT ensures fair and timely resolutions to corporate legal matters. By promoting transparency and accountability, the NCLT significantly contributes to the growth and stability of India's businesses.

Conclusion

In conclusion, this paper has delved into the intricate tapestry of company law in India, unveiling its historical roots, present intricacies, and promising future. We have witnessed the transformation of the Companies Act, from the legacy of the colonial era to the current emphasis on transparency and accountability. The recent surge in ESG reporting signifies a growing commitment to environmental and social responsibility, aligning Indian businesses with global trends. The National Company Law Tribunal (NCLT) stands as a testament to India's dedication to fostering a fair and efficient legal system for resolving corporate disputes. However, the journey forward necessitates continuous refinement. The ever-changing dynamics of the global business landscape demand agility and adaptability from Indian companies and the legal framework governing them. Embracing technological advancements, streamlining bureaucratic processes, and fostering international collaborations will be instrumental in propelling India's corporate sector to new heights. Regulatory bodies like SEBI must stay vigilant, ensuring that ESG reporting translates from mere compliance to a genuine commitment to sustainability. Additionally, fostering a culture of ethical leadership within companies and empowering independent directors will be crucial in safeguarding stakeholder interests. Ultimately, the success of company law in India hinges on its ability to strike a delicate balance. It must provide a framework that encourages innovation and entrepreneurial spirit while upholding ethical standards and ensuring responsible business conduct. By fostering a collaborative ecosystem where businesses, regulators, and stakeholders work in tandem, India can create a world-class legal framework that empowers its companies to thrive

on the global stage, leaving a lasting legacy of responsible and sustainable growth. This commitment to excellence will not only benefit the Indian economy but also contribute to building a more just and sustainable future for all.

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