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Amendment to Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014



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The Ministry of Corporate Affairs ("**MCA**") has amended the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 ("**Managerial Remuneration Rules, 2014**") by way of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2016 dated June 30, 2016 ("**Amended Managerial Remuneration Rules, 2016**").

With the enactment of the Companies Act, 2013, the companies have been burdened with the additional compliances required to be made with respect to the appointment of key managerial personnel and other employees of the company. MCA has dispensed with certain obligations of the companies through the recent Amended Managerial Remuneration Rules, 2016.

While it was mandatory for a company to file a return of appointment of the managing director, whole time director, manager, chief executive officer ("**CEO**"), company secretary ("**CS**"), and chief financial officer ("**CFO**") within sixty (60) days of the appointment, in Form MR - 1 with the relevant Registrar of Companies ("**ROC**"), the Amended Managerial Remuneration Rules, 2016 has lifted this obligation of filing with the ROC with respect to the appointment of CEO, CS and CFO. An altered Form MR - 1 has also been provided reflecting the aforesaid amendment.

***Our View:** The aforesaid exemption granted by the MCA to the companies in relation to the appointment of CEO, CFO and CS, thereby retaining the erstwhile position prevailing under the Companies Act, 1956 will be certainly welcomed by the companies, as the same will reduce the obligation of filing to an extent.*

The Amended Managerial Remuneration Rules, 2016 have also granted leniency to listed companies with respect to the disclosures required to be made in respect of employees, key managerial personnel and their remuneration, in the board report ("**Board Report**"). Certain disclosures such as:

- (a) explanation on the relationship between average increase in remuneration and company performance;
  - (b) comparison of the remuneration of the key managerial personnel against the performance of the company;
  - (c) variations in the market capitalisation of the company, price earnings ratio as at the closing date of the current financial year and previous financial year etc. and in case of unlisted companies, the variations in the net worth of the company of the current financial year and the previous financial year;
  - (d) comparison of each remuneration of the key managerial personnel against the performance of the company;
  - (e) the key parameters for any variable component of remuneration availed by the directors; and
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(f) the ratio of the remuneration of the highest paid director to that of the employees who are not directors but receive remuneration in excess of the highest paid director during the year;  
were earlier required to be incorporated under the Board Report, as per the provisions of Rule 5(1) of the Managerial Remuneration Rules, 2014. However, the aforesaid requirement has been done away with.

***Our View:** Under the Amended Managerial Remuneration Rules, 2016, the MCA has revised the disclosures requirements by listed companies under its Board Report by letting go of the technical, time consuming parameters and benchmarks related to the performance of the company especially pertaining to disclosure of relationship between average increase in remuneration of employees and remuneration of key managerial personnel with the performance, variation of market capitalization and price earning ratio of the current year with the previous year, parameters for variable component of remuneration of the directors etc.*

*By and large, now a listed company is only required to disclose (a) ratio of remuneration of director to the employees; (b) percentage increase in the remuneration of directors, key managerial personnel and employees; (c) average percentile increase already made in the salaries of employees and its comparison with the percentile increase in managerial remuneration and justification thereof etc., under its Board Report.*

Further, in terms of the remuneration drawn by the employees of a listed company, the Board Report of such listed company required certain disclosures such as details of all employees working throughout the financial year and receiving remuneration not less than Rs.60,00,000 for that year and those working for part of the financial year and receiving remuneration not less than Rs.5,00,000 per month, as per Rule 5(2) of the Managerial Remuneration Rules, 2014. The Amended Managerial Remuneration Rules, 2016 have enlarged the aforesaid monetary limit of remuneration and now, "Rs.60,00,000" has been substituted with "Rs.1,02,00,000" (equivalent to \$1,50,000 considering \$1 = Rs.68) and "Rs.5,00,000" has been substituted with "Rs.8,50,000" (equivalent to \$12,500 considering \$1 = Rs.68). However, under all circumstances, the Amended Managerial Remuneration Rules, 2016 require a listed company to include the name of top ten (10) employees in terms of the remuneration drawn in its Board Report.

***Our View:** In view of the economic growth of the country and the aforesaid enhancement of the monetary limits in terms of the remuneration drawn by the employees of a company, MCA has acknowledged increase in remuneration of employees of such companies and thereby raised the benchmark for reporting requirements in the Board Report of the concerned companies.*

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