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Corporate Stricter Responsibility

(New Disclosure Framework for CSR Activities and Spending)

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In the year 2014, Corporate Social Responsibility (CSR) was, for the first time, introduced as an obligation for Indian companies. This was done with the objective that the companies do not restrict themselves from utilizing their resources to increase revenue and profits, but are also socially responsible toward stakeholders, consumers, employees, and the society at large. With such introduction, reportedly, India also became the first country to legislate and mandate CSR programs for certain companies.

As per the statutory requirement, CSR-related provisions are applicable to companies with a net worth of Rs.500 crores or more or turnover of Rs.1000 crores or more, or a net profit of Rs.5 crores or more during the immediately preceding financial year.

Any company meeting the above criteria is required to spend 2% of its profits on CSR activities.

The provisions covered under the applicable statute are (i) the list of CSR activities, (ii) the activities that are excluded from the definition of CSR, (iii) the manner in which CSR projects have to be implemented, (iv) the requirement to set up a CSR committee, (v) how to deal with the unspent CSR funds, (vi) disclosure and reporting of CSR activities, and (vii) penal provisions.

Since the CSR provisions have come into effect, they have been amended from time to time. Amongst various amendments, those concerning the penal provisions and the reporting requirements have been and are the most debated and contentious issues.

In the latest round of amendments (in February 2022), the Ministry of Corporate Affairs has introduced an extensive web-based format for reporting CSR activities.

For the preceding financial year 2020-21, the relevant reporting requirement is required to be completed on or before March 31, 2022.

As part of the new reporting requirement, the specified companies are required to provide details about the CSR activities, the amount spent against ongoing projects as well as other projects. A few other requirements also include details of the amount spent on impact assessment, whether any capital assets have been created or acquired through CSR spent, and whether or not the company has disclosed on its website details about its CSR activities.

The new reporting requirement is aimed to achieve two-fold objectives. Firstly, it will facilitate data mining and enable the government to generate an extensive database of CSR activities. This will in turn be useful in drafting effective CSR policy, besides tracking where and how the amount is being spent. Secondly, it will also make the companies more accountable and ensure stricter adherence to CSR compliance. These additional reporting requirements coupled with the amended penal provisions will also ensure that the companies do not wriggle out of mandatory spending obligations, as were some instances in the past, especially when it came to actual CSR spending year on year.

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