

**FINAL EXAMINATION
GROUP - III
(SYLLABUS 2016)**

**SUGGESTED ANSWERS TO QUESTIONS
JUNE - 2017**

Paper-13 : CORPORATE LAWS & COMPLIANCE

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.
Answer Question No. 1 which is compulsory, carrying 20 marks and
answer any 5(five) Questions from Question No. 2 to Question No. 8.

1. Answer all questions mentioned below. Mark the correct answer (Only indicate A or B or C or D and give justification. 2×10=20
- (i) Every Company shall hold the first Board meeting within
(A) 3 months of its incorporation.
(B) 30 days of its incorporation.
(C) 15 days of its incorporation.
(D) 4 months of its incorporation.
- (ii) Every Nidhi shall maintain members not less than
(A) 500
(B) 200
(C) 100
(D) 50
- (iii) Unless the Articles require a larger number of members, Quorum of a General Meeting of a Producer Company shall be
(A) 5 members
(B) one-third of total membership
(C) one-fourth of total membership
(D) half of total membership
- (iv) Original Books and paper which were seized during Search & Seizure u/s 209 of the Companies Act, 2013 shall be returned by the Registrar or Inspector to the Company from whom such documents are seized as soon as possible but not later than
(A) 180 days after such seizure.
(B) 90 days after such seizure.
(C) 360 days after such seizure.
(D) 30 days after such seizure.
- (v) Sec 233 of the Companies Act, 2013 prescribed simplified procedures for merger or amalgamation of two or more small company & small company means a company whose paid up capital does not exceed
(A) ₹ 10,00,000
(B) ₹ 25,00,000
(C) ₹ 50,00,000
(D) ₹ 100,00,000
- (vi) On the determination of sickness of a company by the Tribunal, the applicant shall make an application accompanied with Audited Financial Statements etc. for revival or rehabilitation within
(A) 30 days of determination of sickness.
(B) 60 days of determination of sickness.
(C) 120 days of determination of sickness.
(D) 180 days of determination of sickness.

Suggested Answer_Syllabus 2016_Jun2017_Paper 13

- (vii) Companies Act, 2013 contemplated Penalties which are of
- (A) 10 types
 - (B) 5 types
 - (C) 7 types
 - (D) 3 types
- (viii) Any person aggrieved by any order of Appellate Tribunal, may file an appeal to the Hon'ble Supreme Court within days, from the date of receipt of the order of Appellate Tribunal.
- (A) 30 days
 - (B) 60 days
 - (C) 90 days
 - (D) 120 days
- (ix) Any allotment of securities made on the basis of Prospectus should be void if permission of listing is not granted by the Stock Exchange before expiry of
- (A) 12 weeks from the closure of the issue.
 - (B) 10 weeks from the closure of the issue.
 - (C) 8 weeks from the closure of the issue.
 - (D) 30 days from the closure of the issue.
- (x) Unfair competition under the Competition Act, 2002 means adoption of practices viz.
- (A) collusive price fixing.
 - (B) allocation of markets.
 - (C) discriminatory pricing etc.
 - (D) All of the above

Answer:

1. (i) (B) As per Sec . 173(1) the 1st Board Meeting shall be held within 30 days of the date of its incorporation
- (ii) (B) Number of members shall not be less than 200 (Nidhi Rules 2014 Rules 5)
- (iii) (C) 1/4th membership. (SEC 581 Y)
- (iv) (A) 180 days; Ref .Sec. 209 (2) of companies Act 2013 as soon as possible but not later than 180 only.
- (v) (C) 50,00,000; Ref. Sec. 2 (85) of Companies Act. 2013.
- (vi) (B) 60 days; Sec. 254 of Company act. 2013
- (vii) (B) 5 Types i.e. (1) Fine (2) Imprisonment or fine (3) Imprisonment or fine or with both (4) imprisonment and fine and (5) imprisonment only
- (viii) (B) 60 Days (Ref. Sec. 423. However Supreme Court if it is satisfied then SC may allow. Further time not more than 60 days.
- (ix) (B) 10 Weeks, Sec. 40 of Companies Act. 2013
- (x) (D) All the above (SEC.40 collusive price fixing; creation of barriers to entry; allocation of market: tie in scales: predatory price; discriminating price etc.

2. (a) Explain briefly the purpose of establishing SEBI. 6
- (b) (i) What are the duties of the inspector as enumerated in Sec 223 of the Companies Act, 2013 in relation to his report.
- (ii) Corporate governance is about Stakeholder's satisfaction. Comment. 6+4=10

Answer:

2. (a) The purpose of the SEBI Act is to provide for the establishment of a Board called Securities and Exchange Board of India (SEBI). The Preamble to the Act provides for the establishment of a Board to:
- (i) Protect the interests of investors in securities,
 - (ii) Promote the development of the securities market,
 - (iii) To regulate the securities market, and
 - (iv) For matters connected therewith or incidental thereto.

Suggested Answer_Syllabus 2016_Jun2017_Paper 13

The Securities and Exchange Board of India was set up to achieve the following objectives:

- (i) To promote fair dealings by the issuers of securities and ensure a market place where they can raise funds at a relatively low cost.
- (ii) To provide, a degree of protection to the investors and safeguard their rights and interests so that there is a steady flow of savings into the market.
- (iii) To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers, etc., with a view to making them competitive and professional.

(b) (i) Section 223 of the Companies Act, 2013 deals with Inspector's report. The following provisions are applicable in respect of the Inspector's report on investigation:

- (i) **Submission of interim report and final report [Sub section (1)]:** An inspector appointed under this Chapter (Chapter XIV- inspection, Inquiry and Investigation) may, and if so directed by the Central Government shall, submit interim reports to that Government, and on the conclusion of the investigation, shall submit a final report to the Central Government.
- (ii) **Report to be writing or printed [Sub section (2)]:** Every report made under sub section (1) above shall be in writing or printed as the Central Government may direct.
- (iii) **Obtaining copy or report [Sub section (3)]:** A copy of the above report may be obtained by making an application in this regard to the Central Government,
- (iv) **Authentication of report [Sub section (4)]:** The report of any inspector appointed under this Chapter shall be authenticated either—
 - (a) by the seal, if any, of the company whose affairs have been investigated; or
 - (b) by a certificate of a public officer having the custody of the report, as provided under section 76 of the Indian Evidence Act, 1872, and such report shall be admissible in any legal proceeding as evidence in relation to any matter contained in the report. .
- (v) **Exceptions:** Nothing in this section shall apply to the report referred to in section 212 of the Companies Act, 2013.

(ii) **Corporate governance is about stakeholders' satisfaction:** The term "Corporate Governance" is not easy to define. The term governance relates to a process of decision making and implementing the decision in the interest of all stakeholders, it basically relates to enhancement of corporate performance and ensure proper accountability for management in the interest of all stakeholders. It is a system through which an organization is guided and directed. On the basis of this definition, the core of objectives of Corporate Governance are focus, predictability, transparency, participation, accountability, efficiency and effectiveness and satisfaction of stakeholders.

3. (a) A meeting of members of Joka Agricultural Equipments Limited was convened under the orders of the Court for the purpose of considering a scheme of compromise and arrangement. The meeting was attended by 200 members holding 500000 shares. 70 members holding 400000 shares in the aggregate voted for the scheme. 120 members holding 90000 shares in aggregate voted against the scheme. 10 members holding 10000 shares abstained from voting. Examine with reference to the relevant provisions of the Companies Act, 1956 whether the scheme was approved by the requisite majority?

6

(b) (i) The auditors of a company refuses to make their report on the annual accounts of a company before it is signed on behalf of the Board of Directors. Advise the company.

(ii) What are the restrictions on the Banking Companies for granting of loan &

Suggested Answer_Syllabus 2016_Jun2017_Paper 13

advances against the security of its own shares.

4+6=10

Answer:

3. (a) **Compromise or Arrangement:** According to sub-section (2) of the section 391 of the Companies Act, 1956, the scheme of compromise and arrangement must be approved by a resolution passed with a majority in number representing three-fourths in value of the creditors, or members, or class of members, as the case may be, present and voting either in person or, by proxy.

The majority is dual, in number and in value. A simple majority of those voting is sufficient. Whereas the 'three-fourths' requirement relates to value. The three-fourths value is to be computed with reference to paid-up capital held by members present and voting at the meeting.

In this case 200 members attended the meeting, but only 190 members voted at the meeting. As 70 members voted in favour of the scheme the requirement relating to majority in number (i.e. 95) is not satisfied.

190 members who participated in the meeting held 4,90,000 shares, three-fourth of which works out to 3,67,500 while 70 members who voted for the scheme held 4,00,000 shares. The majority representing three-fourths in value is satisfied. .

Thus, in the instant case, the scheme of compromise and arrangement of Joka Agricultural Equipments Limited is not approved as though the value of shares voting in favour is significantly more, the number of members voting in favour do not exceed the number of members voting against.

- (b) (i) The auditor is right. Theoretically, accounts are presented to auditors only after they are approved by the Board and signed by authorized persons. The auditor is only expected to submit his report on the accounts presented to him for audit after conducting an examination of the necessary documents, analyzing relevant information and test checking accounting records in order to be able to form an opinion of the financial statements presented to him. In practice, the checking of accounts is already completed before accounts are approved by the Board. Auditor informally approves the draft account with notes etc., before the accounts are approved by the Board. However, auditor signs the accounts only after these are approved by Board and signed by persons authorized by Board of the company.

- (ii) Restrictions on loans and advances (Sections 20 & 21)

Section 20 lays down the restrictions on banking companies from entering into any commitment from granting any loan to any of its director or to any firm in which a director is interested or to any individual or whom director stands as a, guarantor. Further the banking companies are prohibited from granting loans or advance, on the security of its own shares.

Under Section 21, the RBI has been empowered, to determine the policy to be followed by the banks in relation to advances, Thus, RBI gives directions to banking companies on the following matters.

- The purposes for which an advance may or may not be granted.
- The margins to be, maintained In Case of secured advances.
- The rate of Interest charged on advances, other financial accommodation and commission on guarantees.
- The maximum amount of advance or other financial accommodation that a bank may make to or guarantee that it may issue for, a single party having regard to the paid up capital, reserves and deposits of the concerned bank.

4. (a) **Can a Company pay compensation to its Directors for loss of office? Explain briefly the relevant provisions of the Companies Act, 2013 in this regard.** 8

- (b) (i) **Define "contributory" in a winding up. Explain the liabilities of contributories as**

Suggested Answer_Syllabus 2016_Jun2017_Paper 13

present and past member. Give your answer according to the Companies Act, 1956.

(ii) State the kind of approval required for the following transactions under the Foreign Exchange Management Act, 1999:

(I) L, a famous playback singer of India wants to perform a musical night in Paris for Indians residing there. Foreign exchange to the extent of USD 20,000 is required for this purpose.

(II) M requires USD 5,000 to make payment related to 'call back services' of telephone. 5+3=8

Answer:

4. (a) A company can pay compensation to its directors for loss of office as provided in sections 202 of the Companies Act, 2013. Under section 202, such compensation can be paid only to managing director, director holding the office of the manager and to a whole time director but not to others. The compensation payable shall be on the basis of average remuneration actually-earned by such director for three years, or such shorter period as the case may be, immediately preceding the ceasing of holding of such office and shall be for the unexpired portion of his term or for three years whichever is shorter. No such payment can be made, if winding up of the company is commenced before or commences within 12 months after he ceases to hold office if the assets of the company on the winding up, after deducting expenses thereof, are not sufficient to repay to the shareholders the share capital (including the premium, if any) contributed by them, However, no payment of compensation can be made in the following cases:

- (a) where a director resigns on the ground of amalgamation or reconstruction and is appointed the office of managing director or manager or other officer of such reconstructed or amalgamated company,
- (b) where the director resigns his office otherwise than on the reconstruction of the company or its amalgamation as aforesaid,
- (c) where the director vacates office under section 167 of the Companies Act, 2013,
- (d) where the winding up of the company is due to the negligence of the director concerned,
- (e) where the director has been guilty of any fraud or breach of trust,
- (f) where the director has instigated or has taken part directly or indirectly in bringing about, the termination of his office.

(b) (i) **Contributory:** According to Section 428 of the Companies Act, 1956 in a winding up, the term "contributory" means a past or present member liable to contribute to the assets of the company in the event of its being wound up and includes holders of shares which are fully paid up. If a member is once placed in the list of contributories, he is liable to the extent of original shares that remain unpaid, unless he proves that he should not have been placed in the list.

When a company goes into liquidation, every member, whether past or present, has to contribute to the assets of the company. However, a past member will not be required to contribute in the following circumstances:

- (a) if he had ceased to be a member for a period of one year or upwards before the commencement of winding up.
 - (b) if the debt or liability of the company was contracted or incurred after he ceased to be a member.
 - (c) if the present members are able to satisfy the contributions required to be made by them under the Act.
- (ii) (i) Foreign exchange drawals for cultural tours require prior permission/approval of the Government of India irrespective of amount of foreign exchange required, Therefore, in the given case L, the singer is required to seek permission of the Government of India.

Suggested Answer_Syllabus 2016_Jun2017_Paper 13

- (ii) Drawal of foreign exchange for payment related to 'call back services' of telephones is prohibited. Therefore 'M' cannot draw foreign exchange.
5. (a) **What is the minimum contribution the companies are required to make towards CSR as per Companies Act, 2013.** 8
- (b) (i) **What do you mean by anti-competitive agreements, viz tie-in arrangement and resale price maintenance?**
- (ii) **Mr. X is a director of ABC Ltd. He has approached Housing Finance Co. Ltd. for the purpose of obtaining a loan of ₹ 50 lacs to be used for construction of building of his residential house. The loan was sanctioned subject to the condition that ABC Ltd. should provide the guarantee for repayment of loan installments by Mr. X. Advise Mr. X.** 5+3=8

Answer:

5. (a) Required minimum contribution of the Companies towards CSR:
- (A) The Board of every company shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its CSR Policy.
- (B) The company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for CSR activities.
- (C) If the company fails to spend such amount, the Board shall, in its report, specify the reasons for not spending the amount.
- (D) Companies may build CSR capacities of their own personnel as well as those of their implementing agencies through Institutions with established track records of at least three financial years. However, such expenditure shall not exceed five percent of total CSR expenditure of the company in one financial year.
- (b) (i) Anti competitive agreements - According to section 3 of the Competition Act, 2002, it shall not be lawful for any enterprise or association of enterprises or person or association of persons to 'enter' into an agreement in respect of production, supply, storage, distribution, acquisition or control of goods or provision of services, which causes or is likely to cause an appreciable adverse effect on competition within India. These agreements are called as anti-competitive agreements. All such agreements entered into in contravention of the aforesaid prohibition shall be void.
- Tie-in arrangement - It includes any agreement requiring a purchaser of goods, as a condition of such purchase, to purchase some other goods;
- Resale price maintenance - It includes any agreement to sell goods on condition that the prices to be charged on the resale by the purchaser shall be the prices stipulated by the seller unless it is clearly stated that prices lower than those prices may be charged.
- (ii) According to section 185 of the Companies Act, 2013, no company shall, directly or indirectly, advance any loan, including any loan represented by a book debt, to any of its directors or to any other person in whom the director is interested or give any guarantee or provide any security in connection with any loan taken by him or such other person.
- Thus, Mr. X is not allowed for loan of ₹ 50 Lacs against guarantee by the company ABC Ltd.
6. (a) **Examine with reference to the provisions of the Companies Act, 2013 whether notice of a Board Meeting is required to be sent to the following persons:**
- (i) **An interested Director;**
- (ii) **A Director who has expressed his inability to attend a particular Board Meeting;**

Suggested Answer_Syllabus 2016_Jun2017_Paper 13

(iii) A Director who has gone abroad (for less than 3 months).

6

(b) (i) The Board of Directors of Nimbahera Chemicals Limited proposes to transfer more than 10% of the profits of the company to the reserves for the current year. Advise the Board of Directors of the said company mentioning the relevant provisions of the Companies Act, 2013.

(ii) State the "Insurable Interest"— based on the Insurance Act, 1938.

4+6=10

Answer:

6. (a) Notice of Board meeting

(i) **Interested director:** Section 173(3) of the Companies Act, 2013 makes it mandatory for every director to be given proper notice of every board meeting. It is immaterial whether a director is interested or not. In case of an Interested Director, notice must be given to him even though he is precluded from voting at the meeting on the business to be transacted.

(ii) A **Director who has expressed his inability to attend a particular Board Meeting:** In terms of section 173(3) even if a director states that he will not be able to attend the next Board meeting; notice must be given to that director.

(iii) A **director who has gone abroad:** A director who has gone abroad is still a director. Therefore, he is entitled to receive notice of board meetings during his stay abroad, The Companies Act, 2013, allows delivery of notice of meeting by electronic means also. This is important because the Companies Act, 2013 permits a director to participate in a meeting by video conferencing or any other audio visual means.

(b) (i) The first proviso to 123 (1) of the Companies Act, 2013 provides that a company may, before the declaration of any dividend in any financial year, transfer such percentage of its profits for that financial year as it may consider appropriate to the reserves of the company. Therefore, under the Companies Act, 2013 the amount transferred to reserves out of profits for a financial year has been left at the discretion of the company acting vide its Board of Directors. Therefore the company is free to transfer any part of its profits to reserves as it deems fit.

(ii) **Insurable Interest**

To constitute insurable interest, it must be an interest such "that the risk would by its proximate effect cause damage to the assured, that is to say, cause him to lose a benefit or incur a liability. The validity of an insurance contract in India is dependent on the existence of an insurable interest in the subject matter. The person seeking an insurance policy must establish some kind of interest in the life or property to be insured, in the absence of which, the insurance policy would amount to a wager and consequently void in nature.

The test for determining if there is an insurable interest is whether the insured will in case of damage to the life or property being insured, suffer pecuniary loss [New India Insurance Company Ltd. v. G.N. Sainani (1997) 6 SCC 383]. A person having a limited interest can also insure such interest.

Insurable interest varies depending on the nature of the insurance. The controversy as to the existence of an insurable interest between spouses was settled by the court, which held that such an interest could exist as neither was likely to indulge in any 'mischievous game'. The same analogy may be extended to parents and children. Further, the courts have also held that such an insurable interest would exist for a creditor (in a debtor) and for an employee (in an employer) to the extent of the debt incurred and the remuneration due, respectively.

Suggested Answer_Syllabus 2016_Jun2017_Paper 13

The existence of insurable interest at the time of happening of the event is another important consideration. In case, of life and personal accident insurance it is sufficient if the insurable interest is present at the time of taking the policy. However, in the case of fire and motor accident insurance the insurable interest has to be present both at the time of taking the policy and at the time of the accident. The case is completely different with marine insurance wherein there need not be any insurable interest at the time of taking the policy.

7. (a) (i) **Whether XBRL is mandatory in all the Companies. If not, state the Companies where XBRL is mandatory.**

(ii) **What are the advantages of XBRL?**

2+6=8

(b) **What are the documents etc. to be delivered to the Registrar of Companies (MCA) by foreign companies for registration?**

8

Answer:

7. (a) (i) XBRL applies to the following companies:

- 1) All Public listed companies in India and their Indian subsidiaries.
- 2) All companies having a paid up Capital of ₹ 5 Crores and above.
- 3) All companies having Turnover of INR 100 Crores and above.

(ii) **Advantages of XBRL**

XBRL offers major benefits at all stages of business reporting and analysis. The benefits are seen in automation, cost saving, faster, more reliable and more accurate handling of data, improved analysis and in better quality of information and decision making. XBRL enables producers end-consumers of financial data to switch resources away from costly manual processes; typically involving time consuming comparison, assembly and re-entry of data. They are able to concentrate effort on analysis aided by software which can validate" and 'process XBRL information. XBRL is a flexible language, which is intended to support, all current aspects of reporting in different countries and industries. Its extensible nature means that it can be adjusted to meet particular business requirements, even 'at the individual organization level.

All types of organizations can use XBRL to save costs and improve efficiency in handling business and financial information. Because XBRL is extensible and flexible, it can be adopted to a wide variety of different requirements. All participants in the financial information supply chain can benefit, whether they are preparers, transmitters or users of business data.

XBRL is set to become the standard way of recording, storing and transmitting business financial information. It is capable of use throughout the world, whatever the language of the country concerned, for a wide variety of business purposes. It will deliver major cost savings and gains in efficiency, improving' processes in companies; governments and other organizations.

(b) Documents to be delivered to registrar "by foreign companies [Section 380(1)]. Every foreign company shall, within 30 days of establishment of its place of business in India. Deliver to the Registrar for registration.

- 1) a certified copy of the Charter. Statutes or Memorandum and Articles, of the Company or other instruments constituting or defining the constitution of the company. If the instrument is not in the English language, a certified translation thereof in the English language.
- 2) the full address of the Registered or Principal Office of the Company.

Suggested Answer_Syllabus 2016_Jun2017_Paper 13

- 3) a list of the director's and secretary of the Company containing such particulars as may be prescribed.
- In relation to the nature of particulars to be provided as above, the Companies (Registration of Foreign Companies) Rules, 2014 provide that the list of directors and secretary or equivalent (by whatever name called) of the Foreign Company shall contain the following Particulars for each of the persons included in such list, namely:
- (a) personal name and surname in full.
 - (b) any former name or names and surname or surnames in full.
 - (c) father's name or mother's name and spouse's name.
 - (d) date of birth.
 - (e) residential address.
 - (f) nationality.
 - (g) if the present nationality is not the nationality of Origin, his nationality of origin.
 - (h) Passport Number, date of issue and country of issue, (if a person holds more than one passport then details of all passports to be given)
 - (i) income-tax permanent account number (PAN), if applicable.
 - (j) occupation, if any.
 - (k) Whether directorship in any other Indian company. (Director Identification Number (DIN), Name Corporate Identity Number (CIN) of the company in case of holding directorship).
 - (l) other directorship or directorships held by him.
 - (m) membership number (for Secretary only), and
 - (n) e-mail ID.
- 4) The name and address or the names and addresses of one or more persons resident in India authorized to accept, on behalf of the company, service of process and any notices or other documents required to be served on the company.
- 5) The full address of the office of the company in India which is deemed to be its principal place of business in India.
- 6) Particulars of opening and closing of a place of business in India on earlier occasion or occasions.
- 7) Declaration that none of the directors of the company or the authorized representative in India has ever been convicted or debarred from formation of companies and management in India or abroad, and
- 8) any other information, as may be prescribed.

8. Write short notes on any four of the following:

4×4=16

- (a) Producer Companies**
- (b) Actuarial Valuation/ Report (Section 13)**
- (c) Lock-in of Specified Securities held by promoters.**
- (d) STR (Suspicious Transaction Reports)**
- (e) Grant of recognition to Stock Exchanges—Conditions, Section 4(2) SCRA, 1956.**

Answer:

8. (a) Producer Companies

The Companies (Amendment) Act, 2002 has introduced provisions relating to Producer Companies vide Sections 581A to 581ZT under Part-IXA of the Companies Act, 1956. Section 465 of the Companies Act, 2013, deals with the provisions relating to repeal of certain enactments and savings. However, Section 465 (1) of the Companies Act, 2013 has retained the provisions relating to Producer Companies and clarifies that these provisions shall continue to be in force in a manner as if the Companies Act, 1956 has not been repealed until a special Act is enacted for Producer Companies.

Suggested Answer_Syllabus 2016_Jun2017_Paper 13

In view of the explicit provisions contained in the Companies Act, 2013, the Producer Companies are continued to be governed by the Companies Act, 1956 (Section 581A to 581ZT) for the time being. Thus, under this topic 'Producer Companies', wherever the word 'Act' is used, it refers to the Companies Act, 1956.

It must be understood that the concept of Producer companies has not taken off despite there being enough potential in view of some of the irritants like restricted tenure of directors of maximum five years. People who have for long been associated with co-operative and other such movements in India have found that the tenure of five years is too short and would force people out of the producer companies. The tenure should be suitably enhanced. The Government has done well to retain the old provisions of Companies Act, 1956, but should give a try to remove the irritants so that the movement takes off.

(b) Actuarial Valuation/Report (section 13)

At least once a year, every insurer carrying on life insurance business shall cause an investigation of the life insurance business carried on by him including a valuation of his liabilities in respect thereto and shall cause an abstract of the report of such actuary to be made in accordance with the regulations. The Authority may, having regard to the circumstances of any particular insurer, allow him to have the investigation made as at a date not later than two years from the date as at which the previous investigation was made. If the investigation is made annually by any insurer, the statement need not be appended every year but shall be appended at least once in every three years.

(c) Lock-in of specified securities held by promoters.

In a public issue, the equity shares and convertible debentures held by promoters are locked-in for the period stipulated below:

- 1) Minimum promoters contribution is locked-in for a period of 3 years from the date of commencement of commercial production or date of allotment in the public issue, whichever is later.
- 2) Promoters' holding in excess of minimum promoters' contribution is locked-in for a period of 1 year. However, excess promoters' contribution in a further public offer is not subject to lock-in.

However, excess promoters' contribution in a further public offer is not subject to lock-in.

(d) STR (Suspicious Transaction Reports)

The Prevention of Money laundering Act, 2002 and the Rules made there under require every banking company to furnish details of suspicious transactions whether or not made in cash. Suspicious transaction means a transaction whether or not made in cash which, to a person acting in good faith:

- 1) Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime, or
- 2) Appears to be made in circumstances of unusual or unjustified complexity, or
- 3) Appears to have no economic rationale or bonafide purpose.

(e) Grant of recognition to stock exchanges - Conditions: Section 4(2), SCRA, 1956

The conditions may include, condition relating to:

- 1) qualification for Membership of the Stock Exchange.
- 2) manner in which contracts shall be entered into and enforced as between members.
- 3) representation of the Central Government on the Stock Exchange (not exceeding 3 nominated by the Central Government,)
- 4) maintenance of Accounts of members and their audit by Chartered Accountants whenever audit is required by the Central Government.