**New Companies Act relaxes norms for related-party deals**

In what comes as a relief to companies, the coverage of related-party transactions and norms for [inter-corporate loans](http://www.business-standard.com/search?type=news&q=Inter-corporate+Loans) and guarantees have been rationalised in the rules issued under the [Companies Act 2013](http://www.business-standard.com/search?type=news&q=Companies+Act+2013), which comes into effect from April 1.

The [Ministry of Corporate Affairs](http://www.business-standard.com/search?type=news&q=Ministry+Of+Corporate+Affairs) has notified rules for 11 chapters of the new Companies Act of 2013, which will replace the Companies Act of 1956.

According to the new Act, defaulting companies are those that have defaulted on repayment of loans from banks and public financial institutions, on payment of statutory dues for employees, or on depositing money into the Investor Education and Protection Fund. These companies are prohibited from issuing any shares with differential voting rights, the rules say.

However, this might need further clarification from the ministry, as many companies might fall under this category if they have defaulted on any occasion in the past, says Sai Venkateshwaran, partner and head of accounting advisory services, KPMG in India.

Under the new rules, the definition of related party covers directors and key managerial personnel only in relation to the company concerned and its holding company; it excludes functional heads of subsidiaries and associate companies. In another departure, the definition of a relative under related-party transaction covers eight relationships, against 15 in the draft rules. These changes will reduce the volume of transactions under the related-party category.

Another issue that ruffled many feathers in corporate circles, restrictions on issue of loans and guarantees to wholly-owned subsidiaries, has been done away with. Rules relating to guarantees given by a holding company to a bank or financial institution for a loan taken by any subsidiary have been relaxed.

For preparing directors’ reports, the scope of internal financial controls has been restricted to financial statements, against the earlier requirement of covering operational aspects. “This will reduce the responsibility of directors,” says Dolphy D’souza, partner in a member firm of EY Global.

The number of independent directors on company boards has been reduced to two or a higher number, as required to comply with other regulatory requirements or for audit committee composition. The draft rules had stated a third of the board members had to be independent directors.

Rules to appoint an internal auditor, a women director and independent directors have also been relaxed.

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