CHAPTER - IV
RECENT DEVELOPMENTS IN COMPANY LAW

4.1 INTRODUCTION

Modern economy is witnessing the dominant role being played by companies as an important vehicle to accelerate the process of development. Companies are not only the principal buyers and sellers of goods but the major borrowers and consumers of services and important conveyors of new technologies across the world. Multi national companies through their subsidiaries and joint ventures are spread the world over, are playing a major role in the excess of globalisation process and contributing to the national economy and economic well being of the society.

In the midst of grave balance of payment, the Government of India in 1991 redrafted its economic policy to lead new era of deregulation, decontrol, liberalisation and global integration. Since then significant policy initiatives have been taken to provide stimulus to accelerated growth, industrial efficiency, and global competitiveness. As a part of reform process, Government of India has initiated number of legislative reforms and radical changes in the area of Company Laws. New issues, concepts and practices keep on emerging in respect of the working and administration of corporate sector. Many new and unheard concepts have been introduced in the Companies Act and many are in the pipeline.

• Postal Ballot
4.2. POSTAL BALLOT

The Companies Act, 2000 introduced the concept of ‘Postal Ballot’ by inserting Section 192A. As per the provisions, a listed company may, and in the case of notified matters, shall get resolution passed by means of a postal ballot, instead of transacting the business in general meeting. The Companies (passing of the Resolution by Postal Ballot) Rules, 2001 in this connection have been notified.
Notice is given to all shareholders along with draft of resolution explaining reasons and a request to send back assent or dissent on a postal ballot in prepaid envelop by registered post within 30 days. In this way participation of almost each shareholder in the decision-making on vital issues that concerns the whole organisation, is ensured. The non-compliance of the requirements means fine up to Rs. 50,000. Following matters have been notified by the Central Government to be passed by postal ballot:

- Matters relating to alteration in Memorandum.
- Sale of whole or substantially whole of the undertaking.
- Corporate restructuring.
- Entering a new business area.
- Sale of investments in the company where shareholders or voting rights of company exceeds 25%.
- Making a further issue of shares through preferential allotment or private placement.
- Variation in rights attached to class of securities.
- Matters relating to change in management.

4.3. AUDIT COMMITTEE

The concept of ‘Audit Committee’ was introduced by inserting Section 292A in the Companies Act in the year 2000 and by inserting in the same year
clause 49 in the listing agreement. As per the provision of Companies Act, every public company, (listed and unlisted – Private Companies exempted) having paid up capital (equity and preference) of Rs. 5 crore or more should constitute a Audit Committee. The Audit Committee of Board shall consist of not less than 3 Directors, two-third of which should be directors other than Managing Director or Whole time Director. The Committee would ensure transparency and that the financial disclosures/financial statements are correct and creditable. It will also ensure that, frauds, irregularities, failure of internal control system within the organisation, are minimized. The non-compliance of the requirements of the Companies Act means fine up to Rs. 50,000 or 1 year imprisonment or both. In the provision of clause 49, all members shall be financially literate and at least one member shall have accounting or related financial management expertise.

The penalty for non-compliance of the requirements of clause 49 on ‘Audit Committee’ would attract the penal provisions contained in Sections 23(2), and 23E of the Securities Contracts (Regulation) Act, 1956. The penalty that was a meagre amount of Rs. 1,000 until the provisions of Sections 23(2) and 23E were amended with effect from 12th October 2004, was raised to an unimaginable fine extendable to 25 crore rupees by also including imprisonment for a term, which may extent to 10 years (earlier imprisonment was up to 1 year).

The Audit Committee shall mandatorily review the following information:

- Management discussion and analysis of financial condition and results of operations
• Statement of significant related party transactions, submitted by management

• Management letters/letters of internal control weaknesses issued by the statutory auditors

• Internal audit reports relating to internal control weaknesses and

• The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.

4.4. INDEPENDENT DIRECTOR

The clause 49 of the listing agreement lays down certain requirements for independent director. As per the requirements, at least half of the Board must be non-executive directors. If chairman is from the executive director’s category, then at least half of the Board must be independent directors and if chairman is from the non-executive director’s category, then at least one-third must be independent directors. (1/2 if the non-executive chairman is promoter or relative of promoter or of some senior management.) The Companies Act is currently silent on independent director. The new Company Law that has been introduced in the Lok Sabha on 3rd August 2009 has defined independent director differently from the way it has been defined in the clause 49. As per the requirements of the Bill, every listed public company having such amount of paid-up share capital as may be prescribed shall have at least one-third of the total number of directors as independent directors. The Central Government may prescribe the minimum
number of independent directors in case of other public companies and subsidiaries of any public company.

4.5. CORPORATE IDENTITY NUMBER (CIN)

Beginning with about 30,000 companies in 1956 when the Companies Act was enacted, India now (March, 2009) has the largest corporate base with over 9 lakh companies at work, which are spread throughout the country, and larger numbers of new companies are being incorporated every year. But, the administrative mechanism to administer company law has not been developed at such a fast speed. Resultantly, limited numbers of 20 Registrars of Companies (ROC) in the country with little infrastructure feel handicapped administering such number of companies.

In order to provide prompt and efficient service to companies, the Ministry has networked electronically all the offices of Registrar of Companies under its MCA21 Programme. Keeping in view the administrative aspect of Company Law, the MCA21 has made it mandatory for all companies including private companies to obtain a Corporate Identity Number (CIN). This CIN can be located from the MCA21 portal through search based on registration number issued by the Registrar of Companies, present or the old name of the company, or through inactive CIN. Based on the recommendations of E-Corporate Business Working Group to synergic the provisions of Companies Act with the Information Technology Act of 2000, Corporate Identity Number were introduced in the
country with effect from November 1st, 2000. The purpose of introducing CIN is to make corporate governance investors friendly, corporate friendly and compatible with the provisions of Information Technology Act, 2000.

### 4.6. MCA21

The concept of physical filing has become past in the wake of electronic governance. MCA21 stands for e-governance initiative of Ministry of Company Affairs (MCA) of the 21st Century. The project is named MCA21 as it aims at repositioning MCA as an organisation capable of fulfilling the aspirations of its stakeholders in the 21st Century. It is based on the Government’s vision of National e-governance in the country. E-governance or Electronic Governance is the application of Information Technology to the Government functioning in order to bring about Simple, Moral, Accountable, Responsive and Transparent (SMART) Governance. This project of MCA aims at moving from paper based to nearly paperless environment.

The then Ministry of Company Affairs on the recommendations of Department of Information Technology has implemented a comprehensive E-governance system and program through a project named as “MCA21”. On the 18th February 2006, the country entered into a new era of E-governance when the Ministry of Corporate Affairs launched its new website at Coimbatore in Tamil Nadu.

* Now, Ministry of Corporate Affairs.
The MCA21 is aimed at total digital, paperless functioning of the offices of the four Regional Directors, 20 Registrars and 53 facilitation Centres named Physical Front Offices in the country. The project will provide the public, corporate entities and others an easy and secure online access to the corporate information, including filing of documents and public access to the information required to be in the public domain under the Statue, at any time and from anywhere. This would also result in efficiency in statutory supervision of corporate processes and efficient services under the Companies Act, 1956.

4.6.1. Online Filing of Documents

The newly inserted Sections 610 B to E in the Companies Act have made the filing of applications and documents through electronic form, mandatory. The amended provisions of 2006 have made possible the filing of company returns by a simple click on www.mca.gov.in and to make payments of fees by using credit card and internet banking. The electronic filing of corporate documents in the country has been made mandatory with effect from September 16, 2006. The Ministry of Corporate Affairs vide GSR NO 557(E) dated 14th September 2006, has notified the company (Electronic Filing and Authentication of Documents) Rules, 2006. Over 3 lakh filings were made (Balance Sheet and Annual Returns) electronically by December 2006 (within a span of 3 months) after the launch of e-governance project (MCA21) in September 2006. The number of filings to electronic mode has been 1.83 crore by May 2007 and by March, 2009, the figure crossed 5.45 crore.
4.6.2. Online Registration of Companies

The MCA has made the online registration of companies in the country, which was once considered as a dream, possible. The first such company registered online was in South India (Coimbatore) in the summer of 2006, when the Minister of Corporate Affairs launched its new website. Around 18,000 companies were incorporated online up to November 2006. By the May, 2007, 44,000 companies were registered online.

The number of such online registered companies increased to 67,744 by August, 2007 and by March, 2009, the figure crossed 2.5 lakh (out of total companies in India numbering over 9 lakh).

4.6.3. Digital Signature Certificate

The e-forms are required to be authenticated by the authorized signatories using digital signatures as defined under the Information Technology Act, 2000. A digital signature is the electronic signature duly issued by a certifying authority that shows the authority of the person signing the same. It is an electronic analogue of a written signature. Every user who is required to sign an e-form for submission with MCA is required to obtain a Digital Signature Certificate. For MCA21, the following four types of users are identified as users of Digital Signatures and are required to obtain digital signature certificate:

- MCA (Government) Employees.
• Professionals (Company Secretaries, Chartered Accountants, Cost Accountants and Lawyers) who interact with MCA and companies in the context of Companies Act.

• Authorized signatories of the company including Managing Director, Directors, Manager or Secretary.

• Representatives of Banks and Financial Institutions.

A person requiring a Digital Signature Certificate can approach any of the Certifying authorities identified by the MCA for issuance of Digital Signature Certificate.

4.6.4. Key Benefits of MCA21 Project

MCA21 seeks to fulfil the requirements of the various stakeholders including the Corporates, Professionals, Public Financial Institutions and Banks, Government and the MCA employees. The key benefits of MCA21 project are as follows:

• On-line incorporation of companies.

• Simplified and easy mode of filing of Forms/Returns.

• Registration as well as verification of charges anytime and from anywhere.

• Inspection of public documents of companies anytime from anywhere.

• Corporate-centric approach.

• Building up a centralised database repository of corporate operating in India.
• Enhanced service level fulfilment and customer relationship building.
• Total transparency through e-Governance.
• Timely redressal of investor grievances.
• Availability of more time for MCA employees for qualitative analysis of corporate information.

4.7. CORPORATE GOVERNANCE

The root of the word Governance is from ‘gubernate’, which means to steer. Corporate governance would mean to steer an organisation in the desired direction.

The responsibility to steer lies with the board of directors / governing board. Governance is concerned with the intrinsic nature, purpose, integrity and identity of an organisation with primary focus on the entity’s relevance, continuity and fiduciary aspects. Good governance has been an eternal source of inspired thinking and dedicated action.

Till about 2 decades ago, corporate governance was relatively an unknown subject. The subject came into prominence in late 80’s and early 90’s when the corporate sector in a number of countries was surrounded with problems of questionable corporate policies or unethical practices. Now corporate governance is the new Buzz-word in corporate jargon. The need for greater transparency in corporate functioning, in the Board Room practices, in accounting procedures and
for broader concern for all stakeholders have been highlighted in a series of
reports of Expert Committees the world over. Junk Bond Fiasco of USA and
failure of Maxwell (Maxwell Communication Corporation and Mirror Group
Newspapers, UK, 1991) BCCI (Bank of Credit and Commerce International,
1991) and Polypeck in UK resulted in the setting up of Treadway Committee in
USA in the year 1987 and the Cadbury Committee in UK in 1991. Scandals in
number of countries specially the United States triggered reforms in corporate
governance, accounting practices and disclosures the world over. Enron debacle in
2001 and number of other scandals involving large US Companies such as the
Tyco, Quest, Global Crossing, Adelphia Communications, the world.com and the
exposure of auditing lacunae, which led to collapse of the Andersen, set in motion
the reform process and resulted in the passing of Public Accounting Reform and
Investor Protection Act of 2002 known as Sarbanes – Oxley (SOX) Act, 2002 in
USA. (Sponsors Paul Sarbanes, a former US Senate and Michael Oxley, the Vice
President NASDAQ). The main objective of the Oxley Act is to repose investors
confident by preventing Corporate frauds and ensuring transparency and
disclosers. The Oxley (SOX) Act established new standards for Public Company
Boards, management and Accounting firms in USA and its major provisions
include creation of the Public Company Accounting Oversight Board (PCAOB) to
monitor auditors, independence of auditors and corporate governance.
In India on account of the interest generated by Cadbury Committee report, the Confederation of Indian Industry (CII), the Associated of Chambers of Commerce and Industry (ASSOCHAM) and the Securities and Exchange Board of India (SEBI) constituted Committees to recommend initiatives in corporate governance. The objective was to develop and promote a code for corporate governance to be adopted and followed by Indian companies, be these in the Private Sector, Public Sector, Banks or Financial Institution, all of which are corporate entities. Following Confederation of Indian Industry’s initiative, SEBI set up a committee on May 7, 1999 under the Chairmanship of Kumar Mangalam Birla to promote and raise standards of corporate governance. The recommendations of this committee, led to inclusion of clause 49 in the listing agreement in the year 2000.

In May 2000, the Department of Company Affairs (DCA) formed a broad-based study group under the Chairmanship of Dr. P.L. Sanjeev Reddy, Secretary, Department of Company Affairs. The group was given the ambitious task of examining ways to operationalise the concept of corporate excellence on a sustained basis, so as to sharpen India’s global competitive edge and to further develop corporate culture in the country. In November 2000, the Committee produced a report containing a range of recommendations for raising governance standards among all companies in India.
The Enron debacle of 2001 involving the hand-in-glove relationship between the auditor and the corporate client, the scams involving the fall of the corporate giants in the US were some important factors which led the Indian Government to wake up and in the year 2002, Naresh Chandra Committee was appointed to examine and recommend *inter alia* amendments to the law involving the auditor–client relationships and the role of independent directors.

Also in the year 2002, SEBI analysed the statistics of compliance with the clause 49 by listed companies and felt that there was a need to look beyond the mere systems and procedures if corporate governance was to be made effective in protecting the interest of investors. SEBI therefore constituted a Committee under the Chairmanship of Shri N.R. Narayana Murthy, for reviewing implementation of the corporate governance code by listed companies and issue of revised clause 49 based on its recommendations.

Another Committee was constituted by the Department of Company Affairs known as the Working Group for examination of suggestions received on good corporate governance. A High Powered Central Coordination and Monitoring Committee (CCMC) co-chaired by Secretary, Department of Company Affairs and Chairman, SEBI was set up to monitor the action taken against the vanishing companies, and unscrupulous promoters who misused the funds raised from the public.
In 2004, the Government constituted a committee under the Chairmanship of Dr. J.J. Irani, Director, Tata Sons, with the task of advising the Government on the proposed revisions to the Companies Act, 1956 with the objective to have a simplified compact law that would be able to address the changes taking place in the national and international scenario, enable adoption of internationally accepted best practices as well as provide adequate flexibility for timely evolution of new arrangements in response to the requirements of ever-changing business models.

Dr. J.J. Irani Expert Committee on Company Law submitted its report charting out the road map for a flexible, dynamic and user-friendly new Company Law. The Report of the Committee has sought to bring in multifarious progressive and visionary concepts and endeavoured a significant shift from the “Government Approval Regime” to a “Shareholder Approval and Disclosure Regime”.

4.7.1. Objectives of Corporate Governance

Good governance is integral to the very existence of a company. It inspires and strengthens investor’s confidence by ensuring company’s commitment to higher growth and profits. It seeks to achieve the following objectives:

- A properly structured Board capable of taking independent and objective decisions is in place at the helm of affairs;
- The Board is balanced as regards the representation of adequate number of non-executive and independent directors who will take care of the interests and well-being of all the stakeholders;
• The Board adopts transparent procedures and practices and arrives at decisions on the strength of adequate information;

• The Board has an effective machinery to subserve the concerns of the stakeholders;

• The Board keeps the shareholders informed of relevant developments impacting the company’s;

• The Board effectively and regularly monitors the functioning of the management team, and

• The Board remains in effective control of the affairs of the company at all times

The overall endeavour of the Board should be to take the organisation forward, to maximise long-term values and shareholder’s wealth.

4.7.2. Codes and Standards on Corporate Governance

Every Stakeholder connected with the company wants it to be well managed or at least manage for their benefits. Of all the stakeholders, the only group actually in a position to ensure that the company is managed for the benefits of directors is Board and the only group who is in a position to control the directors are the shareholders. But in reality, the situation is totally different. The three major players—Stakeholders in the area of corporate governance in reality are Boards, Shareholders and Employees. Therefore, need is felt for Code and Standards on Corporate Governance.
4.7.3. Key Codes and Standards on Corporate Governance

- Sir Adrian Cadbury Committee (UK), 1992
- Greenbery Committee (UK), 1995
- Bosch Report (Australia), 1995
- Vienot Report (France), 1995
- Calpers Global Corporate Governance Principles (USA), 1996
- Hampel Committee on Corporate Governance (UK), 1997
- Blue Ribbon Committee (USA), 1999
- OECD Principles of Corporate Governance, 1999
- CACG Guidelines/Principles for Corporate Governance in Commonwealth, 1999
- Euroshareholders Corporate Governance Guidelines, 2000
- Principles of Good Governance and Code of Best Practice (UK), 2000
- Joint Committee on Corporate Governance (Canada), 2001

4.7.4. Clause 49 of the Corporate Governance

Securities Exchange Board of India (SEBI) on May 7, 1999, appointed an 18 member committee under the chairmanship of Mr. Kumar Mangalam Birla and a member of SEBI Board, to promote and raise the concept of corporate governance in India. The committee submitted its report containing 25 recommendations in January, 2000, and since then, it has been accepted by SEBI.
and put to implementation. The committee came out with two sets of recommendations—the mandatory recommendations and the non-mandatory recommendations. The mandatory recommendations focus on strengthening the responsibilities of audit committees, improving the quality of financial disclosures, including those pertaining to related parties transactions and proceeds from initial public offerings, requiring corporate executive boards to assess and disclose business risks in the annual reports of companies, calling upon the Board to adopt a formal code of conduct, the position of nominee directors and improved disclosures relating to compensation to non-executive directors and shareholder’s approval of the same.

With a view to promote and raise standard of corporate governance in respect of listed companies, SEBI concluded that the easiest and quickest way of enforcing the recommendations of the Kumarmangalam Birla Committee was to make the recommendations a part of the listing agreements. Accordingly clause 49 on corporate governance was inserted in the listing agreement in 2000, Vide Circular No CFD/DIL/CG/1/2006/1/1 dated 13th January, 2006, SEBI issued revised clause 49 of the listing agreement that has come into effect from January 1, 2006.

Corporate governance brings about an equilibrium between the expectations of the owners, employees, customers and all other stakeholders. It builds continuing bonds with shareholders, employees, investors, depositors,
borrowers, suppliers, customers and business constituents. Corporate governance extends beyond corporate law. Its fundamental objective is not mere fulfilment of the requirements of law but in ensuring commitment of the Board in managing the company in a transparent manner for maximizing stakeholder value. The real onus of achieving desired levels of corporate governance lies with corporate themselves and not in external measures.

4.8. NATIONAL COMPANY LAW TRIBUNAL (NCLT)

Justice V. Bala Krishna Eradi (Retired Supreme Court Judge) Committee constituted by the Central Government recommended setting up of the National Company Law Tribunal (NCLT). Companies (Second Amendment) Act, 2002 was enacted to dissolve the Company Law Board (CLB) and with effect from 13 January, 2003, powers under various provisions of the Companies Act, 1956 were proposed to be transferred from the Company Law Board, the Board for Industrial and Financial Reconstruction (BIFR) and the High Courts to the proposed National Company Law Tribunal (NCLT). As the NCLT not yet been constituted by the Central Government, the CLB, BIFR and High Courts would continue to discharge their functions as before. The need for setting up of the NCLT was felt for the following reasons:

- The powers and the jurisdiction presently being exercised by various judicial bodies like CLB, BIFR or High Courts needs to be consolidated
and entrusted to a single body, which shall serves as single window settlement of cases, related to the corporate affairs.

- Since powers of Courts are delegated to the NCLT and no appeals are preferred in High Court, the setting up of the NCLT will save time of the High Courts as well.

- The appearance of the chartered accountants, companies secretaries, cost accountants and lawyers before the Company Law Tribunal and Appellate Tribunal declines the time and cost to the clients.

- The Tribunal is also entrusted with the powers of Contempt of Court. This provides a built- in-seriousness in the entire proceedings before the NCLT.

- The NCLT and the Appellate Tribunal have the power to regulate their own proceedings within the framework of the Companies Act and the Code of Civil Procedure does not bind them.

4.9. SMALL SHAREHOLDERS’ DIRECTOR ON BOARD

The Companies Act, 2000 introduced the concept of ‘Small Shareholders on Board’ by inserting Sections 252A. As per the provisions, a public company, having paid-up capital of Rs. 5 crore or more and 1000 or smaller shareholders (holding shares up to Rs. 20,000), may elect small investors representative on the Board. Even though, the appointment of such a director is optional but as a measure of good corporate governance, listed companies have been directed by stock exchanges for implementing this concept. It becomes obligatory for the
company to elect representation of small shareholders on Board if there is a demand/notice from the small shareholders.

4.10. COMPLIANCE CERTIFICATE UNDER SECTION 383A

The successive Annual Reports on the working and administration of the Companies Act, 1956 reveal that a large number of documents are returned for rectification of defects and also remain pending for being taken on record. While this state of affairs has perhaps resulted from the constraints under which the offices of the ROCs operate, it cannot be denied that in case of documents returned for rectification, a large number of errors or omissions arise on account of misinterpretation or ignorance of the provisions of law. Compliance Certificate is, therefore, salutary as it creates an awareness among companies to comply with provisions of the Companies Act and also provides a mechanism for self regulation by companies.

The Companies (Amendment) Act, 2000 has inserted a new proviso in sub-Section (1) of Section 383A of the Companies Act, 1956. As per this proviso every company not required to employ a whole-time secretary under sub-Section (1) and having a paid-up share capital of 10 lakh rupees or more shall file with the Registrar a certificate from a secretary in whole-time practice in such form and within such time and subject to such conditions as may be prescribed, as to whether the company has complied with all provisions of the Act and a copy of such certificate shall be attached with Board’s report referred to in Section 217.
Accordingly, every company having a paid-up share capital of rupees 10 lakh or more but less than rupees 2 crore is required to file with the Registrar of Companies a Compliance Certificate from a Secretary in Whole-time Practice and also attach a copy of that certificate with Board’s report which are not required to employ a whole-time secretary but has nevertheless employed. However, the Department of Company Affairs has vide its circular dated 11th December, 2003 clarified that company which is not required to employ a whole-time secretary but has nevertheless employed a whole-time company secretary, such a company is not required to obtain compliance certificate from a practicing company secretary.

A member of the Institute in practice who is entitled-

- to issue compliance certificate pursuant to the proviso to sub-Section (1) of Section 383A of the Companies Act, 1956 (1 of 1956); and/or
- to sign an Annual Return pursuant to the proviso to sub-Section (1) of Section 161 of the Companies Act, 1956 (1 of 1956), shall be deemed to be guilty of professional misconduct if he-
  - issues compliance certificates; and/or
  - signs Annual Return for more than 80 companies in aggregate, in a calendar year.

Provided, however, that in the case of a firm of Company Secretaries, the ceiling of 80 companies aforesaid would apply to each partner therein who is so entitled to issue the compliance certificate; sign Annual Return.
4.11. CORPORATE SOCIAL RESPONSIBILITY

There is today a growing perception among enterprises that sustainable business success and shareholder value cannot be achieved solely through maximizing short-term profits, but instead through market-oriented yet responsible behaviour. Companies are aware that they can contribute to sustainable development by managing their operations in such a way as to enhance economic growth and increase competitiveness whilst ensuring environmental protection and promoting social responsibility, including consumer interest.

“Corporate social responsibility is operating a business in a manner which meets or excels the ethical, legal, commercial and public expectations that a society has from the business.”

The corporate scams and failures worldwide increased the demand for corporate social responsibility on a global scale. The abuses at Enron, Tyco, Global Crossing, Adelphia and World.Com in the US and more recently, collapse of Satyam in India, have severely impacted investors and other stakeholders confidence in the integrity of those charged with the supervision and management of large companies. The widespread corruption and lack of transparency and accountability also led to the emergence of corporate social responsibility.

4.12. BUSINESS ETHICS

Business ethics means equal, fair and honest treatment to all the stakeholders besides shareholders. The company which treats its stakeholders
ethically and meets its responsibilities towards them is awarded with a high degree of loyalty, honesty, quality and productivity. Business ethics provides a solid foundation for the business to operate. An organisation has to inculcate ethics in its culture for actual Corporate Social Responsibility implementation because Corporate Social Responsibility on paper and not in spirit is of no use.

4.13. LIMITED LIABILITY PARTNERSHIP (LLP)

With the growth of the Indian economy, the role played by its entrepreneurs as well as its technical and professional manpower has been acknowledged internationally. It is felt opportune that entrepreneurship, knowledge and risk capital combine to provide a further impetus to India’s economic growth. In this background, a need has been felt for a new corporate form that would provide an alternative to the traditional partnership, with unlimited personal liability on the one hand, and, the statute-based governance structure of the limited liability company on the other, in order to enable professional expertise and entrepreneurial initiative to combine, organise and operate in flexible, innovative and efficient manner. The Limited Liability Partnership (LLP) introduced in the country by enacting the LLP Act of 2008, is viewed as an alternative corporate business vehicle that provides the benefits of limited liability but allows its partners the flexibility of organising their internal structure as a partnership based on a mutually arrived agreement. The LLP form would enable entrepreneurs, professionals and enterprises providing services of any kind or engaged in
scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements. Owing to flexibility in its structure and operation, the LLP would also be a suitable vehicle for small enterprises and for investment by venture capital. Detail Rules on LLP, conversion of companies and firms into LLP, winding up of LLPs, have also been announced by the Ministry of Corporate Affairs in 2009, separately. The first LLP in the country was registered on 2nd April, 2009.

The Companies Act, 1956 in India, is always a step ahead of other corporate and economic legislations towards ensuring the good corporate governance in the liberalised global economy.