
Companies Deposit Rules Amended: Loans from Relative of Directors Allowed

September 16, 2015

In brief

The Companies Act, 2013 (CA 2013) is fully in force except certain provisions which are yet to be notified as on date. The Ministry of Corporate Affairs (MCA) has been considering positive amendments in the Company Law with the objective of facilitating corporate transactions.

Earlier (under the Companies Act, 1956), apart from raising capital through sources such as equity, debt etc., private companies were fulfilling their fund requirements also through raising loans/ deposits from directors and their relatives. Such acceptance of loans/ deposits from the relatives of directors, which was not permitted under section 73 of CA 2013 has now been relaxed.

Further, in addition to the above, the definition of free reserves has been expanded to include securities premium account also. This means that all companies that are accepting deposits (*based prescribed percentage of paid-up capital and free reserves*) will have the benefit of increase in their borrowing limits, and enhanced ability to accept deposits.

In detail

Amendment

The MCA has issued notification dated 15 September 2015, which will be effective from the date of its publication in Official Gazette, to amend the Companies (Acceptance of Deposit) Rules, 2014 (the Rule) as follows:

1. In Rule 2(1)(c)(viii), definition of ‘**deposit**’ now excludes any amount received from a director or “**a relative of the director of the Private Company**”, subject to the condition that such person shall furnish a declaration that the amount of deposit

made is not being given out of funds acquired by him by borrowing or accepting loans or deposits from others, and the company shall disclose the details of the money so accepted in the Board’s report.

2. In Rule 3, instead of the words “paid-up share capital and free reserves”, the words “**paid-up share capital, free reserves and securities premium account**” be substituted.

The takeaways

The above changes are positive

in nature, and will go a long way in fulfilling the funding requirements of business, and are in line with the earlier provisions of the Companies Act, 1956.

Let’s talk

For a deeper discussion of how this issue might affect your business, please contact:

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