

# MINT

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

**NEW DELHI** : The corporate affairs ministry has tightened compliance requirements governing Nidhi companies, a type of non-bank lenders that raise funds exclusively from their members and give loans to them, to improve their governance and protect public interest, showed an official order.

A statement issued separately by the ministry said the new provisions will be applicable to Nidhi companies set up after Tuesday, when the rules took effect.

Accordingly, a public company set up as a Nidhi with share capital of 1 million needs to first get itself declared as a Nidhi from the Union government. This can be done by submitting an application showing a minimum membership of 200 and net owned funds of 2 million within 120 days of its incorporation.

Also, the promoters and directors of the company have to meet the criteria of fit and proper person as laid down in the rules.

To make sure that applications for certification as Nidhi companies are decided upon in time, the new rules introduced the concept of deemed approval. That is, if no decision on the application is conveyed to the company within 45 days of filing the application, approval would be deemed as granted, the ministry said in the statement.

Nidhi companies are very popular in South India and are key players in the financial system as they mobilize funds from their members and give loans to them at a lower interest than commercial banks.

To become a Nidhi company, the entity has to first register as a public limited company, which has more disclosure requirements than a private limited company. Only individual members are allowed in Nidhi companies and it cannot give loans to companies.

The ministry said it had brought back the requirement of government certification to operate as Nidhi company in 2019 by amending the Companies Act of 2013, which had dropped this requirement from the previous 1956 version of the law.

According to the statement, until 2014, only 390 companies were declared as Nidhis, but in the five years from 2014, more than 10,000 companies were incorporated but only about 2,300 companies have applied for declaration as Nidhi companies.

The ministry said that the declarations showed that companies have not been complying with the norms.

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