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CORPORATE GOVERNANCE SPECIALISTS ®

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CORPORATE LAWS (AMENDMENT) BILL, 2026

Key Amendments and Governance Implications

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Summary

The Corporate Laws (Amendment) Bill, 2026 (the Bill) introduces targeted amendments to the Companies Act, 2013 (the Act), aimed at easing compliance, modernising corporate processes and strengthening regulatory oversight. While several changes are procedural, the Bill carries important governance implications in key areas of board accountability, audit regulation, shareholder engagement and corporate compliance.

From a governance perspective, the most significant development is the strengthening of the National Financial Reporting Authority (NFRA), with expanded enforcement powers, enhanced reporting obligations for auditors and a more integrated role in audit oversight, together with the reinforcement of auditor independence through expanded restrictions on non-audit services and the introduction of a three-year post-tenure cooling-off period. The Bill also proposes expansion of the Small Company framework, potentially widening the scope of compliance relaxations for private companies.

The Bill further continues the policy approach of rationalising minor regulatory breaches by shifting certain procedural defaults from criminal liability to monetary penalties, thereby advancing the broader agenda of decriminalisation of corporate offences.

In addition, the introduction of formal digital mechanisms for shareholder communication and meetings reinforces the shift towards technology-enabled corporate governance. Amendments relating to directors and key managerial personnel further strengthen expectations around independence, eligibility and governance continuity.

Overall, the amendments reflect a calibrated approach that balances compliance relief for smaller entities with tighter regulatory oversight in areas critical to financial reporting integrity and investor protection.

The following are the key amendments introduced by the Bill and their implications for corporate governance:

1. Directors and Key Managerial Personnel

a. Independent Directors

Existing Position

- Section 149(6) of the Act, prescribes the eligibility and independence criteria for appointment of an Independent Director (ID), including restrictions relating to pecuniary relationships and professional associations during the preceding three financial years.
- Section 149(11) provides that an ID may hold office for a maximum of two consecutive terms. After completion of such terms, the individual is eligible for re-appointment only after a cooling-off period of three years, during which he/she shall not be associated with the company in any capacity, directly or indirectly.

Proposed Amendment

The Bill proposes to:

• Extend the independence assessment period to include the current financial year in addition to the preceding three financial years.

• Clarify that every ID shall continue to satisfy the independence criteria throughout the tenure.

• Provide that the cooling-off restriction of three years after completion of two consecutive terms under Section 149(11) of the Act shall extend to holding, subsidiary companies, and associate companies.

• Permit an ID, during the cooling-off period, to continue as an employee, proprietor, or partner of a legal or consulting firm where the transactions of such firm with the company, its holding, subsidiary, or associate company, are less than ten percentage of the gross turnover of such firm or such lower percentage as may be prescribed.

• Clarify that any period served as an Additional Director shall be included in the computation of tenure of an ID for the purposes of Sections 149(10) and 149(11) of the Act.

Governance Implications

The amendment reflects a shift from viewing independence as a point-in-time eligibility condition to treating it as a continuing governance obligation. By extending the assessment period to include the current financial year and requiring independence criteria to be satisfied throughout the tenure, the proposal seeks to address situations where relationships affecting independence may arise around or after the time of appointment but remain outside the scope of the existing framework.

The extension of cooling-off restrictions under Section 149(11) of the Act to holding, subsidiary, and associate companies expands the post-tenure restriction to a group-wide level. This reduces the possibility of indirect association through related entities during the cooling-off period and strengthens the effectiveness of the intended three-year separation following completion of two consecutive terms.

The inclusion of the period served as an Additional Director within the computation of tenure under Sections 149(10) and 149(11) of the Act further strengthens the integrity of tenure limits. It ensures that statutory term caps are applied in substance, preventing circumvention through staggered or pre-designation appointments, and reinforcing the objective of structured board refreshment.

What Boards and Nomination and Remuneration Committees (NRCs) Should Consider:

- *Review existing processes for annual assessment and confirmation of director independence.*
- *Strengthen monitoring of relationships and engagements across holding, subsidiary and associate companies.*
- *Reassess succession planning and board refreshment timelines where IDs have previously served as Additional Directors.*
- *Ensure evaluation frameworks adequately capture developments affecting independence throughout a director's tenure.*
- *Ensure that post-tenure cooling-off restrictions under Section 149(11) of the Act, including the three-year prohibition on any direct or indirect association with the company and its holding, subsidiary or associate companies, are factored into offboarding and future engagement policies for IDs.*

b. Directors

Existing Position

- Under Section 161(1) of the Act, an Additional Director holds office up to the date of the next Annual General Meeting (AGM) or the last date on which the AGM should have been held, whichever is earlier.
- Further, under Section 161(4) of the Act, a casual vacancy in the office of a director appointed by shareholders may be filled by the board, subject to subsequent approval by members at the immediate next general meeting.

Proposed Amendment

- The Bill proposes to : Amend Section 161(1) of the Act to provide that an Additional Director shall hold office up to the date of the next general meeting or for a period of three months from the date of appointment, whichever is earlier.
- Amend Section 161(4) of the Act to provide that a person appointed by the board to fill a casual vacancy shall hold office up to the date of the next general meeting or for a period of three months from the date of appointment, whichever is earlier.
- Insert a new sub-section(5) under Section 161 of the Act to provide that a person whose appointment as a director could not be considered or could not be approved in a general meeting shall not be appointed by the board as an Additional Director, Alternate Director, or Director against a casual vacancy without prior approval of the members.

Governance Implications

The proposed reduction in the tenure of Additional Directors and directors appointed to fill casual vacancies without shareholder consideration may accelerate member oversight of board appointments, and reduce the period for which Board-appointed directors can continue in office without shareholder approval. The amendments collectively strengthen the linkage between board appointments and shareholder empowerment.

The insertion of a prior member approval requirement under Section 161 of the Act enhances shareholder oversight over board composition by ensuring that individuals whose appointments have not been approved in a general meeting, cannot subsequently be appointed by the board as an Additional Director, Alternate Director, or to fill a casual vacancy without express member approval, thereby preventing indirect circumvention of shareholder decisions.

What Boards Should Consider:

- *Review timelines for placing appointments of Additional Directors and directors appointed against casual vacancies before members in light of the shortened tenure framework.*
- *Review Board appointment and succession processes to ensure that individuals whose appointment has not been approved by members are not subsequently appointed as Additional Directors, Alternate Directors, or Directors filling casual vacancies without obtaining the requisite member approval.*

c. Director Limits on Number of Directorships

Existing Position

Section 165(1) of the Act restricts a person from holding office as a director, including any alternate directorship, in more than twenty companies at the same time, of which the maximum number of public companies in which a person may serve as a director is ten. For this purpose, directorships in private companies that are holding or subsidiary companies of public companies are included in the count for public company directorships. Directorships held in dormant companies are presently excluded for reckoning the limit of twenty companies.

Proposed Amendment

The Bill proposes to:

- Empower the Central Government to prescribe, by notification, a lower limit on the number of directorships that may be held by specified classes of companies or classes of directors than the limit prescribed under Section 165(1) of the Act.
- Amend Explanation II to provide that the exclusion of directorships held in dormant companies shall apply for reckoning directorship limits under Section 165 of the Act, including any lower limits that may be prescribed by the Central Government.

Governance Implications

The amendment introduces flexibility to prescribe more restrictive directorship limits for specified classes of companies or directors, enabling a differentiated governance framework based on the nature, size, complexity, or public interest significance of companies. This reflects an increasing emphasis on director capacity, board effectiveness, and the ability of directors to devote adequate time and attention to their responsibilities.

The amendment to Explanation II ensures that directorships held in dormant companies continue to be excluded when determining compliance with directorship limits under Section 165 of the Act, including any lower limits that may be prescribed in the future. This provides clarity in the application of the revised framework and avoids unintended restrictions arising from dormant company directorships.

The governance implications of the amendment will ultimately depend on the classes of companies and directors for which lower limits are prescribed and the criteria adopted for such differentiation.

What Boards Should Consider:

- *Monitor notifications prescribing lower directorship limits and assess their impact on existing directors and board composition.*
- *Evaluate whether directors serving on multiple boards have adequate capacity to discharge their responsibilities effectively, particularly in companies with complex operations or heightened regulatory expectations.*
- *Review succession planning and board refreshment strategies where existing directors may be affected by revised directorship limits.*
- *Periodically assess director commitments and potential overboarding risks as part of the Board and NRC evaluation process.*

d. Director Disqualification

Existing Position

As per Section 164(2) of the Act, a director becomes disqualified where a company has failed to file financial statements or annual returns for a continuous period of three financial years.

Proposed Amendment

The Bill proposes to:

- Reduce the period of default in filing financial statements or annual returns triggering director disqualification under Section 164(2) of the Act from three financial years to two financial years.
- Disqualify auditors, secretarial auditors, cost auditors, registered valuers and insolvency professionals associated with the company or its holding, subsidiary or associate company during the immediately preceding three financial years or the current financial year from being appointed as directors.
- Substitute the existing disqualification relating to conviction for offences concerning related party transactions (RPTs) under Section 188 of the Act with a disqualification applicable to persons who have been subjected to penalty for defaults relating to RPTs under the Act during the preceding five years.
- Introduce a requirement that a person shall not be eligible for appointment as a director unless assessed by the Board to be a fit and proper person in accordance with the prescribed criteria.

Governance Implications

By reducing the disqualification trigger from three years to two years, the amendment increases the governance consequences of prolonged filing defaults and is likely to place greater emphasis on timely statutory compliance and board oversight thereof.

The proposed restrictions on auditors, secretarial auditors, cost auditors, registered valuers and insolvency professionals associated with the company or its group entities reinforce the separation between assurance, advisory and oversight functions and may reduce potential conflicts arising from the transition of such professionals to board positions.

The proposed extension of the disqualification framework to persons subjected to penalties for defaults relating to RPTs broadens the scope of director ineligibility and reinforces the importance of compliance with RPT requirements.

The introduction of a fit and proper person assessment framework marks a shift beyond objective eligibility and disqualification criteria towards a broader evaluation of director suitability. The practical impact of the amendment will depend on the criteria prescribed and the extent of Board discretion available in applying such criteria. The framework may introduce a greater degree of subjectivity into director appointment decisions and is likely to require robust nomination, evaluation and documentation processes to support Board assessments.

What Boards Should Consider:

- *Strengthen oversight of statutory filing compliance given the reduced disqualification timeline.*
- *Review succession planning and board appointment processes in light of the proposed restrictions on certain professionals.*
- *Reassess nomination and due diligence frameworks to support fit and proper person evaluations.*

e. Key Managerial Personnel

Proposed Amendment

The Bill proposes to insert a new Section 203A to establish a statutory framework governing the resignation of whole-time Key Managerial Personnel (KMPs), including the Chief Financial Officer and Company Secretary. The proposed provision:

- Requires a resigning whole-time KMP who is not a director to submit a written notice of resignation to the company.
- Mandates the Board to take note of such resignation and intimate the Registrar of Companies in the prescribed form and within the prescribed timeline.
- Permits the resigning KMP to directly file a copy of the resignation, along with detailed reasons, with the Registrar where the company fails to make the requisite filing.
- Clarifies that the resignation shall take effect from the date of receipt of the notice by the company or such later date as may be specified in the notice.
- Provides that resignation shall not absolve the KMP from liability for any defaults committed during his or her tenure.

Governance Implications

The introduction of a statutory framework for resignation of whole-time KMPs elevates management continuity from a matter of internal administration to a recognised governance consideration. Given the central role played by the CFO and Company Secretary in financial reporting, compliance and board processes, the amendment underscores the importance of structured transition arrangements and succession planning for critical management positions.

The framework is also likely to bring greater transparency and accountability around KMP departures, particularly where such resignations occur during periods of significant regulatory, financial or governance developments.

What Boards Should Consider:

- *Review succession planning arrangements for key management positions.*
- *Establish formal transition and handover protocols for critical KMP roles.*
- *Ensure timely Board visibility over vacancies in key management positions.*

f. Board Meetings

Existing Position

In accordance with Section 173(5) of the Act, Small companies, One Person Companies (OPCs) and dormant companies are required to hold at least one Board Meeting in each half of a calendar year, with a minimum gap of ninety days between the two meetings.

Proposed Amendment

Small companies, OPCs and dormant companies shall hold at least one Board Meeting in a calendar year as against the current requirement of one meeting in each half year.

Governance Implications

The amendments reflect a move towards proportionate compliance for smaller entities. While the reduction in Board Meeting requirements eases procedural obligations and compliance costs, it also reduces the frequency of formal Board oversight. Companies may therefore need to balance the benefits of compliance simplification against the need for regular Board engagement and oversight, particularly where the scale or complexity of operations warrants more frequent governance interactions.

What Boards Should Consider:

- *Ensure adequate reporting mechanisms remain in place despite reduced meeting frequency.*

g. Disclosures

Existing Position

Directors are required to make disclosures of interest under Section 184 of the Act at the first Board Meeting of every financial year and whenever there is any change in the disclosures already made.

Proposed Amendment

Annual disclosure of interests under Section 184 of the Act would be required only where there is a change in the disclosures already made.

Governance Implications

Replacing annual disclosures under Section 184 with a change-based framework reduces repetitive compliance and places greater emphasis on timely identification and reporting of changes in director's interests.

What Boards Should Consider:

- *Strengthen processes for identifying and reporting changes in directors; interests.*
- *Periodically assess whether governance practices remain appropriate notwithstanding the available compliance relaxations.*

2. Small Company Framework

Existing Position

As per Section 2(85) of the Act, a Small Company means a company, other than a public company, having paid-up share capital not exceeding ₹10 crore and turnover not exceeding ₹100 crore.

Proposed Amendment

The Bill proposes to:
- Increase the upper limit of paid-up share capital from ₹10 crore to ₹20 crore.
- Increase the upper limit of turnover from ₹100 crore to ₹200 crore.

Governance Implications

The proposed increase in thresholds would significantly expand the universe of companies qualifying as Small Companies and consequently eligible for various compliance and governance relaxations under the Act. Companies falling within the revised limits may become eligible for, among other things:
- Reduced Board Meeting requirements under Section 173(5) of the Act;
- Simplified Board's Report requirements under Section 134 of the Act;
- Relaxations relating to signing and certification of annual returns under Section 92 of the Act;
- Lower penalties under certain provisions of the Act;
- Relaxation with respect to appointment of Auditors; and
- Other procedural and compliance exemptions available to Small Companies under the Act.

As a result, private companies with paid-up share capital of up to ₹20 crore and turnover of up to ₹200 crore may be able to operate under a significantly lighter compliance framework than is currently available. The amendment therefore represents not merely a revision of thresholds but a substantial expansion of the scope of the Small Company regime.

While the amendment is intended to provide proportionate compliance relief, the expansion of the Small Company regime may result in a larger number of companies becoming eligible for governance and compliance relaxations notwithstanding increased business scale and operational complexity. This may place greater reliance on internal governance, oversight and control mechanisms to ensure that the benefits of reduced compliance obligations do not come at the expense of effective risk management and accountability.

The proposed enabling provision under Section 139(12) of the Act is likely to have heightened significance in the context of the expanded Small Company thresholds. To the extent that companies qualifying as Small Companies are included within the prescribed classes exempt from auditor appointment, a substantially larger population of companies could potentially operate without a statutory audit requirement. While this would further reduce compliance costs and administrative burden, it would also increase reliance on managementprepared financial information and internal control processes in the absence of independent audit assurance. The governance impact will therefore depend on the classes of companies ultimately prescribed for exemption and the safeguards accompanying such relief.

From a board perspective, the expansion of the Small Company framework will therefore require a more deliberate focus on governance discipline within a lighter compliance environment. As statutory obligations reduce, the responsibility of the board to ensure adequate internal controls, financial oversight, and ethical conduct. becomes more pronounced. In particular, reduced formal checks and, in certain cases, the absence of mandatory audit scrutiny may increase reliance on management reporting systems, potentially heightening the risk of misstatements and financial fraud. Accordingly, boards will need to be more proactive in embedding risk-based oversight mechanisms and ensuring that the ease of compliance does not inadvertently dilute accountability or create conditions conducive to financial fraud.

What Boards Should Consider:

- *Evaluate the compliance and governance implications of transitioning into the Small Company category.*
- *Assess whether existing governance practices should be retained notwithstanding the availability of statutory exemptions.*
- *Consider stakeholder expectations and business complexity before availing governance-related relaxations.*

3. Annual General Meetings

Existing Position

The Companies Act, 2013 requires AGMs and Extraordinary General Meetings (EGMs) to be conducted in accordance with the statutory framework prescribed under the Act. While virtual meetings have been permitted through regulatory relaxations and circulars in recent years, the Act does not presently contain a comprehensive framework governing virtual or hybrid shareholder meetings.

Proposed Amendment

The Bill proposes to:

- Permit AGMs and EGMs to be conducted physically, through video conferencing or other audio-visual means, or in hybrid mode, in the prescribed manner.
- Require every company to hold at least one AGM in physical mode every three years.
- Require companies to hold requisitioned meetings in hybrid mode where requisitioning members so demand.
- Permit certain extraordinary general meetings conducted wholly through electronic means to be convened on shorter notice, subject to prescribed conditions.

Governance Implications

The amendments formally recognise virtual and hybrid shareholder meetings within the statutory framework and reduce reliance on periodic regulatory relaxations. The framework seeks to balance flexibility and accessibility with shareholder engagement by preserving periodic physical interaction while facilitating wider participation through technology. The provisions are likely to be particularly relevant for companies with geographically dispersed shareholder bases and may contribute to greater participation in shareholder decision-making.

What Boards Should Consider:

- *Review existing shareholder meeting processes and technology infrastructure in light of the proposed framework.*
- *Ensure that virtual and hybrid meeting arrangements facilitate effective shareholder participation, engagement and voting.*
- *Consider whether additional governance practices may be required to preserve transparency and meaningful interaction between shareholders and the Board.*
- *Monitor the detailed rules that may be prescribed regarding conduct of virtual and hybrid meetings.*

4. Digital Corporate Communication

Proposed Amendment

The Bill proposes to:

- Insert a new provision under Section 12 of the Act, to require prescribed classes of companies to maintain a website, e-mail address and other prescribed modes of communication and to intimate such details to the Registrar.
- Insert a new provision under Section 20(2) of the Act, to mandate electronic service of prescribed classes of documents by prescribed classes of companies, while continuing to permit members to request delivery through a specific mode upon payment of the prescribed fee.

Governance Implications

The practical impact of these amendments will depend on the classes of companies and documents that may be prescribed through the rules. From a governance perspective, the amendments formalise digital communication channels and further embed electronic communication within the corporate reporting and shareholder communication framework.

What Boards Should Consider:

- *Review the adequacy of digital communication and disclosure mechanisms.*
- *Ensure appropriate controls around electronic communications and record retention.*
- *Review the adequacy of cybersecurity controls and cyber risk management frameworks supporting electronic communications and digital record-keeping.*
- *Monitor compliance with the detailed requirements that may be prescribed through rules.*

5. Corporate Social Responsibility

Existing Position

As per Section 135 of the Act, Corporate Social Responsibility (CSR) provisions apply to companies having a net worth of ₹500 crore or more, turnover of ₹1,000 crore or more, or net profit of ₹5 crore or more. Unspent amounts relating to ongoing projects are required to be transferred to the Unspent CSR Account within 30 days from the end of the financial year.

Proposed Amendment

The Bill proposes to increase the net profit threshold from ₹5 crore to ₹10 crore.
The timeline for transfer of unspent CSR amounts relating to ongoing projects is proposed to be increased from 30 days to 90 days.

Governance Implications

The amendment is likely to reduce the number of companies falling within the CSR framework by increasing the net profit threshold. The extension of the transfer timeline provides additional flexibility in administering ongoing CSR projects and utilisation of CSR funds. While the changes reduce compliance obligations for certain companies, Board and CSRC oversight over CSR strategy, implementation and monitoring of project outcomes will continue to remain important governance considerations.

What Boards Should Consider:

- *Assess whether the company continues to fall within the CSR framework under the revised thresholds.*
- *Review governance processes relating to monitoring and utilisation of CSR funds.*
- *Ensure ongoing CSR projects are adequately tracked notwithstanding the extended transfer timeline.*

6. Board's Report Disclosures and Audit Committee Transparency

Existing Position

Section 134(3) of the Act requires the Board's Report to contain specified disclosures relating to, among other things, annual returns, Board meetings, directors' responsibility statements, fraud reporting, IDs, RPTs, risk management, CSR, and Board evaluation.

Proposed Amendment

The Bill proposes to:

- Require the Board to provide explanations or comments on observations made by auditors regarding financial transactions or matters having an adverse effect on the functioning of the company, as referred to in Section 143(3)(f) of the Act.
- Require the Board to provide explanations or comments on qualifications, reservations, or adverse remarks relating to the maintenance of accounts and other connected matters, as referred to in Section 143(3)(h) of the Act.
- Mandate disclosure of the composition of the Audit Committee in the Board's Report.
- Require disclosure of instances where the Board has not accepted any recommendation of the Audit Committee, together with the reasons for such non- acceptance.

Governance Implications

The proposed amendments strengthen the Board's accountability for addressing significant audit observations by requiring specific explanations in relation to matters that may adversely affect the functioning of the company and deficiencies relating to maintenance of accounts. The amendments reinforce the expectation that Boards actively consider and respond to audit findings rather than treating such observations as matters solely between the auditor and management.

The requirement to disclose the composition of the Audit Committee and instances Where its recommendations have not been accepted by the Board enhances transparency around Board-Audit Committee dynamics and decision-making processes. The proposed disclosures may also encourage greater scrutiny of the rationale for departures from Audit Committee recommendations and strengthen the oversight role of the Audit Committee in financial reporting and governance matters.

What Boards and Audit Committees Should Consider:

- *Review processes for timely evaluation and escalation of significant audit observations and qualifications.*
- *Ensure robust documentation of Board deliberations and responses to auditor observations, particularly those affecting the company's financial reporting or operations.*
- *Strengthen engagement between management, auditors, and the Audit Committee to facilitate effective resolution of audit concerns.*
- *Establish clear documentation and governance protocols where the Board decides not to accept recommendations of the Audit Committee, including recording the rationale for such decisions.*
- *Assess whether existing Board reporting mechanisms adequately support the enhanced disclosure requirements under Section 134(3) of the Act.*

7. Auditors and NFRA

a. Auditor Independence and Non-Audit Services

Existing Position

Section 144 of the Act prohibits auditors from providing specified non-audit services to the company, its holding company and subsidiary company, either directly or indirectly.

Where an auditor or audit firm was providing such non-audit services at the time of commencement of the Act, it was required to comply with the restrictions before the closure of the first financial year from such commencement.

Proposed Amendment

The Bill proposes to expand restrictions relating to non-audit services by prohibiting auditors of prescribed classes of companies from providing specified non-audit services to the company, its holding company or subsidiary.

Further, it is proposed to extend the applicability of the restriction on provision of specified non-audit services by auditors of prescribed classes of companies to a period of three years after completion of the auditor's term.

Governance Implications

The amendment materially strengthens the auditor independence framework by extending both the scope of restricted services and the cooling-off period post-audit term. This effectively widens the separation between audit and advisory functions and increases the long-term independence expectation placed on audit firms. Audit Committees will need to reassess permissible service matrices with statutory auditors and network firms, particularly in relation to recurring advisory engagements that may now fall within the extended restriction window.

From an industry perspective, however, concerns have been expressed that a three-year post-tenure restriction may significantly impact auditor–client continuity, particularly in cases where long-standing audit relationships also involve deep institutional knowledge of the business. There is also apprehension that the restriction could reduce the available pool of eligible firms for certain complex or mid-sized engagements, given the already concentrated nature of the audit market in India. This has led to calls for a more calibrated approach that balances independence safeguards with practical market capacity and continuity considerations.

b. Strengthening of NFRA

Existing Position

In accordance with Section 132 of the Act, NFRA functions as a statutory regulatory authority, empowered to monitor and enforce compliance with accounting and auditing standards for prescribed classes of companies and auditors. It is empowered to initiate investigations, conduct inquiries, call for information, impose monetary penalties, issue directions, and take action including debarment of auditors where required.

Proposed Amendment

The Bill proposes a significant expansion and institutional strengthening of NFRA through the following measures:

- Constitution of NFRA as a body corporate with enhanced statutory standing and institutional autonomy.
- Mandatory intimation requirement requiring auditors of prescribed classes of companies to furnish ICAI registration details to NFRA within prescribed timelines and manner, and providing that such intimation is a precondition for appointment as auditor.
- Expansion of mandatory reporting obligations requiring auditors to file documents, returns and other information with NFRA in the prescribed form, manner and time.
- Strengthening of enforcement powers to include issuance of binding directions to auditors in public interest, investor interest or creditor interest.
- Enhancement of inquiry powers, including express quasi-judicial authority to summon and enforce attendance, require production of documents, and examine persons under oath.
- Expansion of penalty regime to cover:
    - failure to furnish documents, returns or information;
    - furnishing of false or misleading information;
    - omission of material facts; and
    - wilful alteration, suppression or destruction of records.

- Creation of a dedicated NFRA Fund comprising government grants, regulatory fees, and other prescribed sources of income.
- Explicit exclusion of jurisdiction of civil courts in matters within NFRA's mandate, including bar on injunctive relief against NFRA proceedings.
- Provision for appeal against NFRA orders before the Appellate Tribunal within prescribed timelines and procedures.
- Power of the Central Government to supersede NFRA in specified circumstances, including grave emergency, persistent non-compliance or public interest considerations.
- Strengthening of regulatory transparency through mandatory public consultation prior to issuance of regulations and periodic review of regulations at prescribed intervals.

Governance Implications

The amendments significantly deepen NFRA's regulatory footprint over audit firms and statutory auditors by strengthening enforcement powers, expanding information-gathering obligations, and increasing penalties for non-compliance, including the ability to impose debarment on auditors and audit firms in appropriate cases. The introduction of mandatory intimation-linked eligibility for appointment of auditors further integrates regulatory oversight into the audit appointment lifecycle itself.

The framework shifts NFRA from a primarily post-facto enforcement regulator to a more continuous supervisory authority with enhanced visibility over auditor eligibility, conduct, and compliance. This is likely to increase regulatory scrutiny over audit processes, documentation practices, and auditor responsiveness to regulatory requirements. The breadth of discretionary standards such as "public interest, investor interest or creditor interest" in enforcement actions may also necessitate stronger internal governance frameworks within audit firms and enhanced oversight by Audit Committees to ensure preparedness for potential regulatory intervention and consistency in compliance practices.

The amendments also significantly expand NFRA's role from a standards oversight and disciplinary body to a comprehensive supervisory, investigative, adjudicatory and enforcement authority. In particular, the proposed expansion of the scope of "professional or other misconduct" to include contraventions of provisions of the Companies Act falling within NFRA's remit, coupled with enhanced inquiry powers and the exclusion of civil court jurisdiction in matters within its mandate, substantially strengthens NFRA's ability to independently investigate and enforce compliance. While these measures may enhance audit quality, accountability and investor confidence, they may also raise questions regarding the interaction of NFRA's expanded jurisdiction with the functions of ICAI, SEBI and other regulatory authorities. Clear delineation of responsibilities and effective regulatory coordination will therefore be important to minimise jurisdictional overlap, avoid inconsistent enforcement approaches and provide greater certainty to auditors and regulated entities.

What to Consider:

Board

- *Re-assess audit governance framework in light of NFRA becoming embedded in auditor appointment eligibility and ongoing supervision.*
- *Strengthen oversight over auditor selection, reappointment, and eligibility verification processes.*
- *Ensure escalation protocols are in place for NFRA communications, directions, and inquiries.*
- *Align governance framework with increased regulatory visibility over audit quality and compliance.*

Audit Committee

- *Review auditor appointment and continuation processes in light of mandatory NFRA intimation-linked eligibility requirements.*
- *Strengthen oversight of auditor independence, including non-audit services and network firm relationships.*
- *Enhance monitoring of audit quality, key judgments, and documentation standards.*
- *Ensure readiness for NFRA inquiries through robust audit trails and evidence retention practices.*
- *Increase engagement frequency with auditors on regulatory developments and compliance preparedness.*

Auditors

- *Ensure timely compliance with NFRA intimation requirements as a precondition for appointment eligibility.*
- *Strengthen internal systems for regulatory reporting, filings, and ongoing compliance obligations.*
- *Re-assess independence frameworks in light of expanded enforcement and post-tenure restrictions.*
- *Enhance audit documentation, evidence retention, and internal quality control standards.*
- *Build internal readiness for enhanced inquiry powers, including summons, document production, and examinations.*

Conclusion

The Bill reflects a calibrated shift towards proportionate compliance coupled with stronger regulatory oversight, particularly in audit regulation and corporate accountability. It signals a clearer governance emphasis on transparency, independence and structured supervision across key corporate functions. Overall, the Bill reinforces an evolving framework that balances ease of doing business with heightened integrity and oversight expectations.

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