Deposits – Practical Outlook

By:
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Acceptance of deposits from public only in specified cases

- No company shall **invite**, **accept** or **renew** deposits from the public except in any **manner provided under Chapter V** of Companies Act, 2013 - section 73(1);
- **Scoped out companies:** The above restriction shall not apply to:
  - a banking company;
  - NBFC as defined in the RBI Act; and
  - such other company as the CG may specify, after consultation with the RBI - proviso to section 73(1);
- **Acceptance of Deposits From Public by Specified Public Companies on or after 1-4-2014 – Section 76, Rule 2(1)(e) and Rule 3(8) but subject to Section 73:**

If Public Company is having	AND such Public Company has
Net Worth $\geq$ Rs. 100 crores; **or**	• prior SR approval [OR approval if SR approval already was taken u/s 180(1)(c)]; • credit rating (prior and then each year); • created charge w.r.t. secured deposits
Turnover $\geq$ Rs. 500 crores	

Other companies can accept deposits only from members – Section 73(2) and Rule 3(3)

<table>
<tr><th>S. No.</th><th>Type of Company</th><th>Quantum of Deposits [DPT 3 filing reqd. in all cases]</th><th>Exemption also from:</th></tr>
<tr><td>1.</td><td>• Private Co.;
• Unlisted IFSC Public Co.</td><td>100% of Paid up capital (+) Free Reserves (+) Securities Premium</td><td rowspan="4">• issuance of a circular;
• filing a copy of the circular with ROC;
• DRR;
• Deposit Insurance
• Checking default in the repayment of deposits/ interest thereon
[Section 73(2)(a) to (e)]</td></tr>
<tr><td>2.</td><td>Private Co. – Start Up</td><td>• -do- after 10 years of incorporation;
• No limit for 10 years from its date of incorporation</td></tr>
<tr><td>3.</td><td>Private Co.:</td><td>No limit</td></tr>
<tr><td></td><td colspan="2">a) It is not an associate or a subsidiary company of any other company; <u>and</u>
b) Its borrowings from Banks/ F.I./ Body Corporate < 2 (x) paid up capital or Rs. 50 crores, whichever is lower; <u>and</u>
c) No default in repayment of (b) subsists on the date of accepting deposits from members</td></tr>
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Deposit Quantum Limits on other companies – Section 73(2) and Rule 3(4)

S. No.	Type of Company	Quantum of Deposits [DPT 3 filing reqd. in all cases]	No exemption from:
1.	Eligible Public Co.	• **From Public:** 25% of Paid up capital (+) Free Reserves (+) Securities Premium; • **From Members:** 10% of Paid up capital (+) Free Reserves (+) Securities Premium	• issuance of a circular; • filing a copy of the circular with ROC; • DRR; • Deposit Insurance • Checking default in the repayment of deposits/ interest thereon **[Section 73(2)(a) to (e)]**
2.	Eligible Govt. Co.	• **From Public:** 35% of Paid up capital (+) Free Reserves (+) Securities Premium	
3.	Non-eligible Public Co.	**Only from Members:** 35% of Paid up capital (+) Free Reserves (+) Securities Premium	

Share Application Money

Areas not to be overlooked - Question

RST (P) Limited Equity and Liabilities (Extract)	As at 31.3.2026 (in Lakhs)	As at 31.3.2025 (in Lakhs)
Share application money pending allotment (money was received through Banking channels on 15th January, 2025)	100	100

What does Companies Act say

- A company **shall allot its securities within 60 days** from the date of receipt of the application money.
- If the company is not able to allot the securities within that period, it shall **repay the application money to the subscribers within 15 days** from the date of completion of 60 days.
- If the company fails to repay the application money within the aforesaid period, it shall be liable to **repay that money with interest @12% p.a.** from the expiry of 60th day – Section 42(6).
- If the securities for which application money or advance for such securities was received **cannot be allotted within 60 days from the date of receipt of the application money** and such application money is not refunded to the subscribers within 15 days from the date of completion of 60 days, **such amount shall be treated as a deposit** – Rule 2(1)(c)(vii) of Companies (Acceptance of Deposits) Rules, 2014

What does CARO say

Para 3(v)	Para 3(xiv)
in case, the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the **provisions of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the rules framed thereunder**, where applicable, **have been complied with?** If not, the nature of such contraventions be stated	whether the company has made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review and if so, as to **whether the requirement of section 42 of the Companies Act, 2013 have been complied with** and the amount raised have been used for the purposes for which the funds were raised. If not, provide the details in respect of the amount involved and nature of non-compliance

Directors' Disqualification

- **Reporting by Auditors:** The auditor's report shall also state whether any director is disqualified from being appointed as a director under section 164(2) – Section 143(3)(g);

- **Deemed Vacation:** The office of a director shall become vacant in case he incurs any of the disqualifications specified in section 164. Where he incurs disqualification under section 164(2), the office of the director shall become vacant in all the companies, other than the company which is in default under that sub-section – Section 167

Disqualification of Directors – Section 164(2)

Any Co. (***other than Govt. Co.***)

Made defaults in

Filing of annual F.S. or annual returns for 3 continuous F.Y.

Or

Repayment of **Deposits/ Interest** thereon/ **Debentures/ Interest** thereon/ **Dividend**

≥ 1 year from due date

Then directors of such company

Cannot be re-appointed as director of such company or appointed in other company for next 5 years

Customer Advances

Case Study

- M/s Galaxy Retail Pvt. Ltd., a distributor of consumer electronics, received an advance of ₹95 lakhs on 5th March 2025 from M/s UrbanCart Online Pvt. Ltd. for the supply of a bulk order of smartphones and accessories for an upcoming festive sale.
- The order was split into 3 dispatches:
  i. The first shipment worth ₹40 lakhs was delivered in June 2025.
  ii. The second shipment worth ₹30 lakhs was invoiced in October 2025, but goods were never dispatched due to warehouse constraints.
  iii. The remaining ₹25 lakhs remained unbilled & undelivered by 31st Mar., 2026.
- M/s Galaxy continued to show the full ₹95 lakhs as "Advance from Customer" in the financials. No refund was issued, and no legal dispute existed.
- What are the audit considerations for the year ending on 31st March, 2026

Answer

- Under Rule 2(1)(c)(xii)(a), an advance received for supply of goods must be appropriated (i.e., either by delivery or refund) within 365 days from receipt to avoid being treated as a deposit;
- ₹40 lakhs (delivered): Fully appropriated
- ₹30 lakhs (invoiced but not delivered): Not appropriated — mere invoicing does not equal delivery
- ₹25 lakhs: Neither invoiced nor delivered
- Thus, total unappropriated amount = ₹55 lakhs
- Since:
  - 365 days from 5-March-2025 expires on 4-March-2026
  - 15-day refund grace period ends on: 19-Mar-2026
  - As on 31st March, 2026, appropriation deadline + refund grace period have already passed - ₹55 lakhs becomes a deemed deposit from 20-Mar-2026

Immovable Property Agreements

Case Study

- Skyline Developers Ltd. enters into a registered "Agreement to Sell" with Mr. Gupta for a commercial office space. Mr. Gupta pays an advance of INR 50 Lakhs on February 1, 2024. The agreement stipulates that the balance payment and possession will take place upon completion of the building, estimated for December 2026 (almost 3 years later).
- **Issue:** Will the advance received by Skyline Developers trigger the deposit rules since it will be held for more than 365 days?

Answer

- The amount is **not a deposit**.
- **Legal Provision:** Rule 2(1)(c)(xii)(b) completely exempts advances received in connection with consideration for immovable property under an agreement or arrangement. Notably, there is no 365-day restriction here, provided the advance is adjusted in accordance with the terms of that specific agreement.
- **Conclusion:** Since the advance is strictly tied to the registered agreement for immovable property, it remains entirely exempt until the final adjustment (handover) in 2026.

The "Inventory vs. Immovable Property" Overlap

Case Study

- Pinnacle Real Estate Constructions, a real estate developer, enters into an Agreement to Sell with multiple home buyers on May 1, 2024, for a residential tower. They collect 20% of the flat value as an upfront advance. The flats are classified as 'Inventory' in Pinnacle's financial statements. The project is slated for completion and handover in December 2027 (over 3 years later).
- **Issue:** Since the flats are 'inventory' (goods) for the company, does the 365-day restriction under Clause (a) apply, forcing these advances to become deposits after May 1, 2025?

Answer

- The advances remain **exempt and are not deposits**, governed strictly by **Clause (b)**.
- **Legal Interpretation:** The legal principle of *Lex specialis derogat legi generali* (special law overrides general law) applies here. While the flats are commercially treated as inventory, they legally constitute "immovable property." Clause (b) is a specific carve-out exclusively for immovable property.
- **Application:** Even though the flats are stock-in-trade for the developer, the transaction involves consideration for immovable property. Therefore, Clause (b) supersedes Clause (a). The 365-day limit does not apply, provided the advances are adjusted against the property strictly in accordance with the registered Agreement to Sell upon project completion in 2027.

Performance
Security

Case Study

- A municipal corporation awards a massive road construction contract to Apex Buildcon Ltd. As per the tender terms, Apex Buildcon must engage local subcontractors. Apex Buildcon hires a local vendor for earthmoving and demands a "Security Deposit for Performance" of INR 10 Lakhs to ensure the vendor completes the earthmoving on schedule.
- **Issue:** Is this INR 10 Lakhs received by Apex Buildcon Ltd. from its vendor considered a deposit?

Answer

- The amount is **not a deposit**.
- **Legal Provision:** Rule 2(1)(c)(xii)(c) excludes security deposits received for the performance of a contract for the supply of goods or provision of services.
- **Conclusion:** This is a standard commercial safeguard. As long as the amount is strictly held as a performance guarantee for the contracted service, it falls outside the definition of a deposit.

Annual Maintenance Contracts (AMC) and Warranties

Case Study

- TechServe Solutions Ltd. sells high-end enterprise servers. They offer a premium, upfront 7-year comprehensive maintenance contract (AMC) to their corporate clients. A client pays an advance of INR 14 Lakhs on January 1, 2024, to secure this 7-year AMC. The standard industry practice for such IT equipment AMCs rarely exceeds 3 to 4 years.
- **Issue:** How is this 7-year advance AMC payment treated under the deposit rules?

Answer

- The amount will be treated as a **deposit**.
- **Legal Provision:** Clause (xii)(e) allows advances for future services (warranty or maintenance) provided the period does not exceed the prevalent common business practice or 5 years, **whichever is less**.
- **Application:** The contract period (7 years) exceeds the absolute statutory ceiling of 5 years. Furthermore, it exceeds the prevalent business practice of 3-4 years.
- **Conclusion:** Because it breaches the strict temporal limits set by the rules, the entire advance loses its exemption and is classified as a regulated deposit from the date of receipt, triggering immediate non-compliance.

Sectoral Regulators and Publications

Case Study

- **Transaction A:** Telecom giant ConnectNet Ltd. receives upfront security deposits from subscribers as mandated by the Telecom Regulatory Authority of India (TRAI) guidelines.
- **Transaction B:** A legal publishing company, LexPress Ltd., receives INR 15,000 as a 3-year upfront subscription for its monthly electronic journal on corporate law.
- **Issue:** Are these advances subject to the general 365-day rule?

Answer

- **Neither is a deposit**, and the 365-day rule does not apply.
- **Transaction A:** Exempt under Clause (xii)(f). Advances received as allowed by a sectoral regulator (like TRAI, RBI, IRDAI) or government directions are permanently protected.
- **Transaction B:** Exempt under Clause (xii)(g). Advances for subscriptions towards publications (print or electronic) are specifically carved out and are strictly adjusted against the receipt of the publications over the 3-year term.

The "Lack of Permission" Trapdoor

Case Study

- BioPharma Ltd. accepted an advance of INR 20 Lakhs from a distributor for the supply of a new medical device. The supply was contingent on BioPharma receiving final approval from the Central Drugs Standard Control Organisation (CDSCO).
- On October 1, 2025, CDSCO officially rejected the application, meaning BioPharma no longer had the necessary permission to deal in the goods. As a result, the INR 20 Lakhs became immediately refundable. Due to a cash crunch, BioPharma finally refunded the money on November 10, 2025.
- **Issue:** What is the regulatory status of the INR 20 Lakhs between October 1 and November 10?

Answer

- The amount becomes a **deposit on October 16, 2024**.
- **Legal Provision:** The Proviso to Clause (xii) states that if an advance becomes refundable because the company fails to obtain the necessary permissions or approvals to deal in the goods/property, it will be deemed a deposit. The Explanation clarifies that this deeming fiction triggers on the expiry of **15 days** from the date the amount becomes due for refund.
- **Application:** The refund became due on October 1, 2024 (the date of rejection). The 15-day grace period expired on October 15, 2024.
- **Conclusion:** From October 16, 2024, until the actual refund date of November 10, 2024, the amount is classified as a deposit, leading to a direct contravention of the Companies Act for that period.

Long-Term Projects for Capital Goods

Case Study

- Titan Heavy Engineering Ltd. signs a contract on February 10, 2024, with a power generation company to design, manufacture, and supply a custom-built, heavy-duty steam turbine (a capital good). The contract value is INR 50 Crores, and Titan receives an advance of INR 10 Crores. The manufacturing timeline, per the technical agreement, is 28 months.
- **Issue:** Will the INR 10 Crores advance become a deposit after 365 days?

Answer

- The amount is **not a deposit**.
- **Legal Provision:** Clause (xii)(d) explicitly exempts advances received under long-term projects for the supply of capital goods. There is no 365-day restriction tied to this specific clause.
- **Application:** The steam turbine is unequivocally a capital good, and the 28-month manufacturing timeline qualifies it as a long-term project. The advance remains exempt for the entire 28-month duration until the final supply and billing occur.

Borrowings from Directors, Relatives, and HUFs

Case Study

- Zenith Ventures Private Limited requires urgent working capital. The company accepts the following unsecured loans, with proper written declarations from all parties stating the funds are not borrowed from others:
- INR 5 Lakhs from Mr. Sharma (Director).
- INR 3 Lakhs from Mrs. Sharma (Wife of Mr. Sharma).
- INR 4 Lakhs from Mr. Sharma's Hindu Undivided Family (HUF).
- INR 2 Lakhs from Mr. Verma (A former director who resigned two months prior).
- **Issue:** Identify which of these transactions are exempt from the definition of a 'deposit'.

Answer

- Rule 2(1)(c)(viii)
- **Mr. Sharma (INR 5 Lakhs):** Exempt. Amounts received from a director of a private or public company are excluded from the definition of a deposit.
- **Mrs. Sharma (INR 3 Lakhs):** Exempt. In the case of a private company, amounts received from a relative of a director are specifically excluded.
- **Mr. Sharma's HUF (INR 4 Lakhs):** Classified as a **Deposit**. An HUF cannot be legally categorized as a "relative" of a director u/s 2(77).
- **Mr. Verma (INR 2 Lakhs):** Classified as a **Deposit**. The exemption requires the lender to be a director at the time of receipt of the amount. Since Mr. Verma had already resigned, this borrowing does not qualify for the exemption.
- **Important Note:** If Zenith Ventures were a Public Limited Company, the INR 3 Lakhs from Mrs. Sharma (relative) would also be classified as a deposit, as the relative exemption applies exclusively to private companies.

Promoter Loans and Financial Institution Stipulations

Case Study

- Core Infrastructure Ltd. approached State Bank of India (SBI) for a term loan of INR 5 Crores. SBI sanctioned the loan with a strict stipulation that the promoters must bring in INR 1 Crore as unsecured loans to maintain a healthy debt-equity ratio. The promoters complied. Five years later, Core Infrastructure Ltd. successfully repays the entire SBI term loan. However, the company retains the INR 1 Crore unsecured loan from the promoters on its books to fund daily operations.
- **Issue:** What is the status of the INR 1 Crore promoter loan before and after the SBI loan repayment?

Answer

- Rule 2(1)(c)(xiii)
- **Pre-Repayment:** The INR 1 Crore is **not a deposit**. Unsecured loans brought by promoters (or their relatives) in pursuance of a specific stipulation by a lending bank or financial institution are explicitly excluded from the definition.
- **Post-Repayment:** The INR 1 Crore becomes a **Deposit**. The rules dictate that the exemption applies only as long as the Bank/ FI loan is active. The moment the SBI loan is fully repaid, the foundational condition for the exemption ceases to exist, and the retained promoter loan transforms into a regulated deposit.

Start-up Funding and Convertible Notes

Case Study

- Nova Tech Solutions Pvt Ltd is a recognized start-up by the DIPP, Ministry of Commerce. To fund software development, the company accepts INR 20 Lakhs from an angel investor via a convertible note. The terms state the note is compulsorily convertible into equity shares within 7 years.
- **Issue:** Does this convertible note fall outside the purview of the deposit rules?

Answer

- No, the INR 20 Lakhs will be treated as a **deposit**.
- **Legal Provision:** Rule 2(1)(c)(xvii) provides an exemption for recognized start-ups raising funds through convertible notes (convertible or repayable within ten years). However, this is subject to a strict financial threshold, i.e., the amount must be INR 25 Lakhs or more in a *single tranche*.
- **Conclusion:** While Nova Tech meets the criteria of being a recognized start-up and the conversion period (7 years) is well within the 10-year limit, the quantum of funding (INR 20 Lakhs) fails to meet the minimum INR 25 Lakh threshold.

Inter-Corporate Borrowings and Lending Limits

Case Study

- Alpha Manufacturing Ltd. is facing a short-term liquidity crunch. To manage its working capital, it borrows INR 5 Crores from Beta Logistics Private Limited as an unsecured loan. The Board of Beta Logistics approves this transaction, noting that Beta Logistics has surplus funds.
- **Issue:** Will the INR 5 Crores received by Alpha Manufacturing Ltd. be considered a 'deposit'? What other compliance must be checked?

Answer

- The amount is **not a deposit**.
- **Legal Provision:** Rule 2(1)(c)(vi) specifically excludes any amount received by a company from any other company (Inter-Corporate Borrowings) from the definition of a deposit.
- **Application:** Alpha Manufacturing Ltd. can accept the INR 5 Crores without triggering deposit regulations.
- **Important Caveat:** While Alpha is exempt from deposit rules, Beta Logistics (the lending company) must ensure this loan complies with the ceiling limits and approval requirements laid out in **Section 186** of the Companies Act, 2013 (Loans and Investments by Company).

Secured vs. Unsecured Convertible Debentures

Case Study

- Pioneer Real Estate Ltd. issues the following instruments to raise funds:
- **Instrument A:** INR 2 Crores in bonds, secured by a second charge on its warehouse. The warehouse is valued at INR 4 Crores by a registered valuer.
- **Instrument B:** INR 1 Crore in unsecured debentures, with terms stating they are compulsorily convertible into equity shares of the company at the end of 8 years.
- **Issue:** How will Instrument A and Instrument B be treated under the deposit rules?

Answer

- **Instrument A (Secured Bonds):** Classified as a **Deposit**. Although the asset value (INR 4 Cr) exceeds the bond amount (INR 2 Cr), the exemption under Rule 2(1)(c)(ix) strictly requires a *first charge* or *pari passu charge* on the company's tangible assets. A second charge does not qualify.
- **Instrument B (Convertible Debentures): Not a deposit**. Compulsorily convertible debentures that convert into shares within 10 years are explicitly exempt, even if they are completely unsecured.

Employee Security Deposits

Case Study

- To ensure employee retention and cover potential damages to expensive company equipment, TechDesign Ltd. implements a new policy for its senior engineers.
- Engineer X (Annual Salary: INR 12 Lakhs) is asked to provide a security deposit of INR 5 Lakhs. This deposit earns zero interest.
- Engineer Y (Annual Salary: INR 8 Lakhs) provides a security deposit of INR 2 Lakhs. The company agrees to pay a nominal interest of 4% p.a. on this amount.
- **Issue:** Are these security deposits treated as 'deposits' under the Companies Act?

Answer

- **Engineer X: Not a deposit**. The amount (INR 5 Lakhs) is non-interest bearing and does not exceed his annual salary (INR 12 Lakhs). It meets the conditions of Rule 2(1)(c)(x).
- **Engineer Y:** Classified as a **Deposit**. While the amount (INR 2 Lakhs) is well within his annual salary (INR 8 Lakhs), the company pays interest on it. The exemption applies only to non-interest-bearing security deposits.

Foreign Remittances and Institutional Funds

Case Study

- Agri Grow Ltd., an Indian company, receives two major tranches of funding in a single financial year:
- INR 15 Crores as a loan from a Foreign Body Corporate (a collaborator based in Germany). The transaction fully complies with FEMA guidelines.
- INR 10 Crores from a registered Domestic Venture Capital Fund.
- **Issue:** Do either of these receipts trigger the Companies (Acceptance of Deposits) Rules?

Answer

- **Neither is a deposit.**
- **Foreign Body Corporate:** Exempt under Rule 2(1)(c)(ii). Amounts received from foreign governments, foreign banks, foreign bodies corporate, or foreign citizens are excluded, provided they comply with the provisions of the Foreign Exchange Management Act (FEMA), 1999.
- **Venture Capital Fund:** Exempt under Rule 2(1)(c)(xviii). The rules explicitly exclude amounts received from Alternate Investment Funds, Domestic Venture Capital Funds, Mutual Funds, and Real Estate Investment Trusts.

Amounts Held in Trust

Case Study

- A local community organization gives Omega Pharmaceuticals Ltd. a sum of INR 50 Lakhs to hold in trust. The mandate is to use these funds exclusively for establishing a free medical dispensary over the next two years. The agreement explicitly states that Omega Pharmaceuticals Ltd. will not pay any interest on this amount.
- **Issue:** Does holding this community fund constitute accepting a deposit?

Answer

- The amount is **not a deposit**.
- **Legal Provision:** Rule 2(1)(c)(xi) excludes non-interest bearing amounts received **and** held in trust (the condition was amended from 'or' to 'and' w.e.f. 29-6-2016).
- **Application:** Since the INR 50 Lakhs is held under a specific trust arrangement for the medical dispensary and is strictly non-interest bearing, it falls squarely within the exemption.

Tenure and Short-Term Deposit Limits (Rule 3(1)(a))

Case Study

- BlueWave Manufacturing Ltd. has the following financial position as of its latest audited balance sheet:
- Paid-up Share Capital (PUC): INR 40 Crores
- Free Reserves (FR): INR 50 Crores
- Securities Premium Account (SP): INR 10 Crores (Total PUC + FR + SP = INR 100 Crores)
- To meet urgent working capital requirements, the Board of Directors passes a resolution to accept the following unsecured deposits on June 1, 2026:
- **Deposit A:** INR 5 Crores for a tenure of 2 months.
- **Deposit B:** INR 12 Crores for a tenure of 4 months.
- **Deposit C:** INR 20 Crores for a tenure of 40 months.
- **Issue:** Evaluate the legal validity of each proposed deposit regarding its tenure and quantum limits.

Answer

- **Deposit A (2 months): Invalid.** Rule 3(1)(a) strictly prohibits the acceptance of deposits repayable on demand or upon notice of less than 6 months. While the proviso allows short-term deposits, the absolute minimum tenure permitted is 3 months.
- **Deposit B (4 months): Partially Invalid.** The proviso allows deposits with a tenure between 3 and 6 months to meet short-term fund requirements, subject to a strict cap. The cap is 10% of the aggregate of PUC + FR + SP.
  - Maximum limit: 10% of INR 100 Crores = INR 10 Crores.
  - Since Deposit B is INR 12 Crores, the company can only legally accept INR 10 Crores under this short-term window. The remaining INR 2 Crores violates the rule.
- **Deposit C (40 months): Invalid.** Rule 3(1)(a) sets the maximum statutory tenure for any deposit which is repayable on demand or upon receiving a notice within a period of less than six months or more than thirty-six months from the date of acceptance or renewal of such deposit. A 40-month deposit is ultra vires the Deposit Rules.

Appointment and Removal of Deposit Trustees (Rule 7)

Case Study

- Vanguard Financials Ltd., an eligible public company, plans to issue a circular inviting secured deposits on September 15, 2026. The company takes the following actions:
- On September 10, 2026, it executes the deposit trust deed (Form DPT-2).
- It appoints Mr. Sharma as the deposit trustee. Mr. Sharma is an independent professional, but his son is a junior accountant in Vanguard's wholly-owned subsidiary.
- Six months later, due to a disagreement, the Board moves to remove Mr. Sharma. At the Board meeting, 6 out of 8 directors are present (including 1 independent director). Five directors vote for his removal, while the independent director dissents. The company proceeds with the removal based on the majority vote.
- **Issue:** Identify the regulatory contraventions in this sequence of events.

Answer

- The company has committed three distinct violations of Rule 7:
- **Timing of Form DPT-2 [Rule 7(2)]:** The trust deed must be executed at least seven days before issuing the circular. Vanguard executed it on September 10 for a September 15 circular (only 5 days prior), breaching the timeline.
- **Disqualification of Trustee [Rule 7(3)(a) & (e)]:** Mr. Sharma cannot be appointed. A person is disqualified if they are an employee of a subsidiary company, or if they are related to such an employee. Since his son is an employee of Vanguard's subsidiary, Mr. Sharma is conflicted out.
- **Removal Protocol [Rule 7(4)]:** A deposit trustee cannot be removed by a simple or special majority. The rule explicitly demands the **consent of all the directors present** at the meeting (unanimous vote of attendees), and at least one independent director must be present. Because the independent director dissented, the removal is legally void.

Premature Repayment and Interest Rate Recalculation (Rule 15)

Case Study

- On April 1, 2024, Orion Logistics Ltd. accepted a deposit of INR 10 Lakhs from Mr. Iyer for a tenure of 3 years at an interest rate of **10% p.a.** The company's deposit scheme clearly stated the following rate slabs at the time of acceptance:
- 1 year to less than 2 years: **7% p.a.**
- 2 years to less than 3 years: **8.5% p.a.**
- 3 years: **10% p.a.**
- Due to a personal medical emergency, Mr. Iyer requests premature repayment on June 15, 2025 (after the deposit has run for exactly 14 months and 14 days).
- **Issue:** What rate of interest is legally payable to Mr. Iyer upon premature withdrawal?

Answer

- The correct interest rate payable is **6% p.a.**
- **The Calculation Matrix:** Rule 15 mandates that the interest rate shall be reduced by 1% from the rate the company would have paid had the deposit been accepted for the period it actually run, not the original contracted rate.
- **Step 1: Determine the "Period Run":** The deposit ran for 14 months and 14 days. As per the Explanation to Rule 15, a fractional part of a year less than six months is excluded. Therefore, the effective period run is **1 year**.
- **Step 2: Identify the Base Rate:** Looking at the company's slabs on April 1, 2024, the rate applicable for a 1-year deposit was 7% p.a.
- **Step 3: Apply the Penalty:** Deduct 1% from the applicable base rate (7% - 1% = 6%)
- **Note:** A common mistake is simply deducting 1% from the contracted 10% (resulting in 9%), which is incorrect and overpays the depositor in violation of the rules.

Premature Renewal for Higher Interest (Proviso to Rule 15)

Case Study

- Continuing from the previous Case Study, suppose instead of withdrawing the money, Mr. Iyer notices on June 15, 2025, that Orion Logistics Ltd. has launched a new deposit scheme offering **11% p.a.** for 3-year deposits. He requests the company to prematurely close his existing 10% deposit (which has an unexpired period of 22 months) and immediately renew it under the new 11% scheme for a fresh tenure of 3 years.
- **Issue:** Does the 1% penalty for premature closure apply in this scenario?

Answer

- **No penalty applies.**
- **Legal Provision:** The second proviso to Rule 15 acts as a safe harbor. If a depositor prematurely renews a deposit specifically to avail of a higher rate of interest, the penalty is waived, provided the renewal period is strictly longer than the unexpired period of the original deposit.
- **Application:** The unexpired period of Mr. Iyer's original deposit was 22 months. He is renewing it for 3 years (36 months). Since 36 months > 22 months, the company can legally close the old deposit without the 1% deduction and issue the new one at 11% p.a.

Deposit Repayment Reserve Account (Rule 13)

Case Study

- During the statutory audit of Zenith Core Industries Ltd. for the financial year ending March 31, 2026, the audit team observes the following:
- The company has deposits totaling INR 8 Crores maturing between April 1, 2026, and March 31, 2027.
- On May 10, 2026, the CFO transfers INR 1.5 Crores into a dedicated "Deposit Repayment Reserve Account" maintained with HDFC Bank (a scheduled bank).
- In August 2026, facing a temporary shortfall in payroll, the CFO withdraws INR 50 Lakhs from this reserve account to pay employee salaries, replenishing it fully in September 2026.
- **Issue:** Has Zenith Core Industries complied with the liquid asset maintenance requirements under Rule 13?

Answer

- The company has committed two severe contraventions:
- **Timeline Violation:** Rule 13 requires the liquid asset deposit to be made on or before the 30th day of April of each year. The company deposited the funds on May 10, missing the statutory deadline. (The quantum of INR 1.5 Crores is acceptable as it meets the minimum 20% requirement of the 8 Cr maturing deposits, which is 1.6 Cr, assuming they had a prior balance, but if the total balance is only 1.5 Cr, it also fails the 20% quantum test).
- **End-Use Violation:** The rule explicitly states that the amount deposited in this reserve "shall not be utilised for any purpose other than for the repayment of deposits." Withdrawing funds to cover payroll, even temporarily and even if subsequently replenished, is a strict violation of the Companies Act.

Form DPT 3

Purpose of Form DPT-3

- Form DPT-3 is a mandatory annual electronic return filed with the Ministry of Corporate Affairs (MCA). It serves a dual reporting purpose:
- **Deposits:** To report the receipt, repayment, and outstanding balances of regulated deposits under Section 73 of the Companies Act, 2013.
- **Exempted Borrowings:** To report the particulars of transactions that are specifically excluded from the definition of a deposit (e.g., standard bank loans, inter-corporate advances, loans from directors, trade advances) as per Rule 2(1)(c) of the Deposit Rules.

Applicability and Exemptions

- **Who Must File:** Every company—including Private Limited, Public Limited, and One Person Companies (OPCs)—that has any outstanding loan, advance, or deposit on its books at the end of the financial year.
- **Who is Exempt:**
  - Government Companies.
  - Banking Companies.
  - Non-Banking Financial Companies (NBFCs)
  - Housing Finance Companies (HFCs)

Critical Timelines

- **Cut-off Date:** The form captures the company's financial position exactly as it stands on **March 31st** of the financial year.
- **Due Date:** The annual return must be filed on or before **June 30th**.

Types of DPT-3 Filings (Purpose Selection)

- When initiating the form on the MCA portal, a company must select the primary reason for filing from the following options:
- **Return of Deposit:** For companies that hold regulated deposits.
- **Particulars of transactions not considered as deposits:** This is the most common filing, utilized by companies that hold only exempted borrowings (e.g., term loans from banks, permitted advances).
- **Return of Deposit and Particulars of transactions not considered as deposits:** For companies holding a mix of both regulated deposits and exempted borrowings.
- **Onetime Return:** (A transitional category used to report outstanding loans received between April 1, 2014, and January 22, 2019. It is rarely applicable for current annual filings).

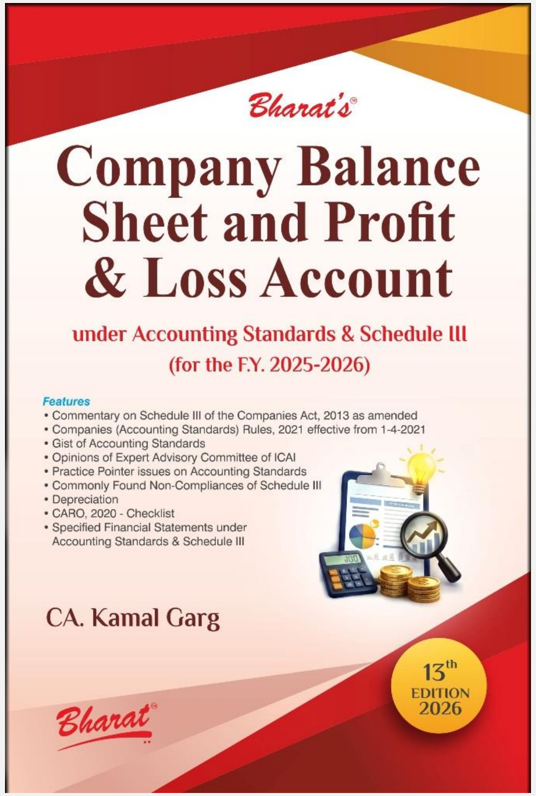
Key Overhauls under the V3 Web-Based Portal

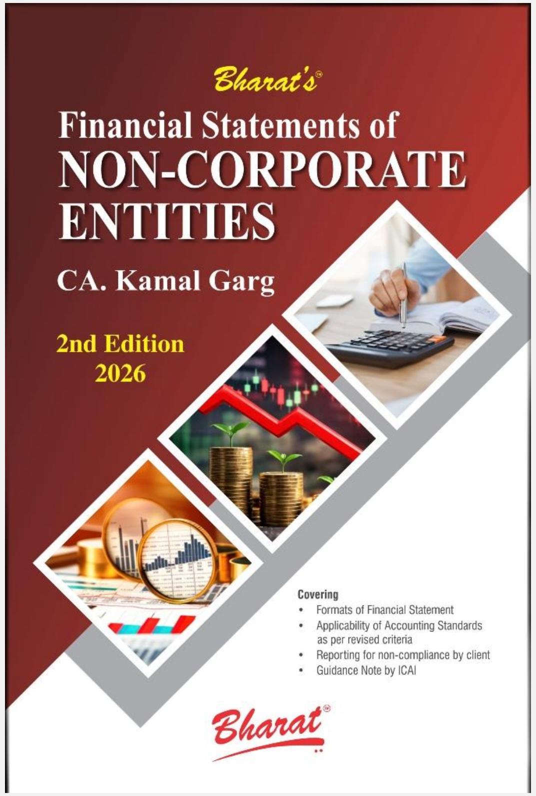
- The shift to the V3 portal fundamentally changed DPT-3 from a simple balance-reporting form to a highly detailed reconciliation tool. The major updates include:
- **Mandatory Statutory Auditor's Declaration:**
  - The Shift: Previously, an auditor's certificate was only strictly enforced if the company held regulated deposits.
  - Current Rule: Under the V3 portal, a specific declaration by the Statutory Auditor is **compulsory for all filings**, even if the company is exclusively reporting exempted borrowings. The auditor must formally validate the figures entered into the web form.

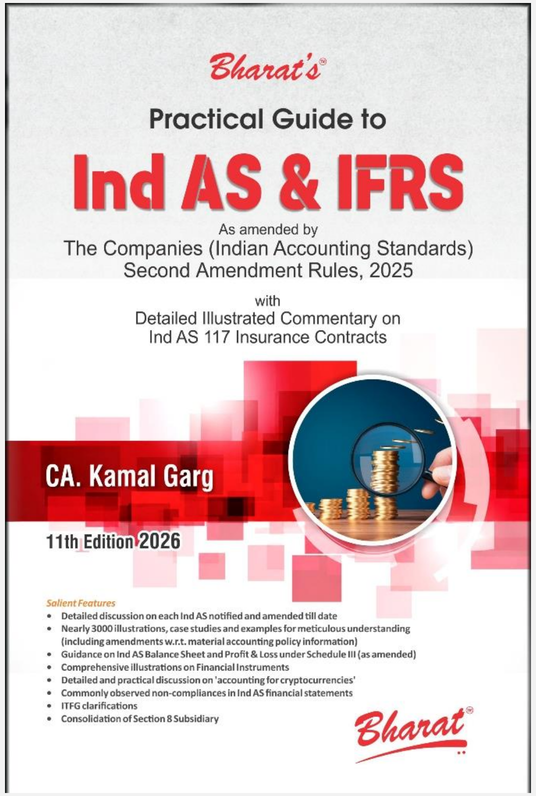
- **Comprehensive Roll-Forward Data:**
    - The Shift: The MCA no longer accepts a single, static closing balance for exempted borrowings.
    - Current Rule: Companies must provide a complete mathematical reconciliation of these funds for the year, detailing the **Opening Balance**, **Additions** during the year, **Repayments**, any **Adjustments**, and the final **Closing Balance**.
- **Aging Schedule / Tenure Disclosure:** The form now mandates an aging schedule, requiring companies to disclose the exact tenure of the outstanding amounts (i.e., specifying how long the exempted funds or deposits have been sitting on the company's books).

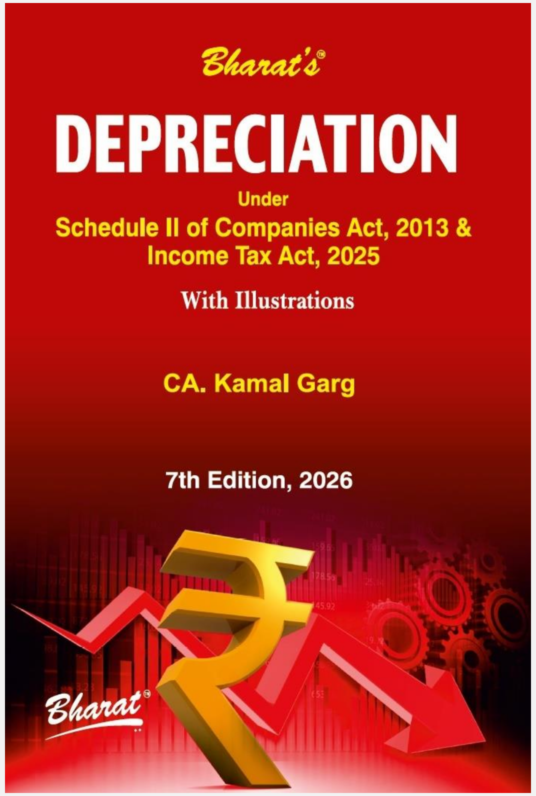
- **Stringent Charge Disclosures:** If a charge has been created on the company's assets to secure deposits, manual data entry is no longer sufficient. The system requires the exact **Number of Charges** and the specific **SRN of the CHG-1 or CHG-9** forms filed for the creation of those charges.
- **Standardized Attachments:**
  - **Auditor’s Certificate:** Mandatory if the company is filing for "Deposits" or a combination of "Deposits and exempted borrowings."
  - **List of Depositors:** Must be uploaded in a standardized Excel format provided by the MCA (if applicable).
  - **Copy of the Trust Deed:** Required if a deposit trustee has been appointed.
  - **Details of Liquid Assets:** Required to prove compliance with the 20% repayment reserve rule (if applicable).

- **The Statutory Auditor's Declaration (The In-Form Checkbox/Data Entry)**
- This is the new compliance trapdoor introduced by the MCA's August 2022 amendment for the web-based V3 portal.
- **What it is:** It is not an attached PDF. It is a mandatory section built directly into the digital flow of the web form itself.
- **When is it required? Always.** The V3 portal made this declaration compulsory for every single DPT-3 filing, regardless of the purpose.
- **The Impact:** Even if a company is only reporting exempted borrowings (where the physical PDF certificate is skipped), the web form forces you to input the Statutory Auditor’s Name, Firm Registration Number (FRN), and Membership Number to formally "declare" and validate the figures entered in the roll-forward sections.









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