1.5 · Board of Directors and Key Managerial Personnel P13 · Module 1

· Companies Act, 2013

SM pp. 82–115 (34 pages). **The highest-scoring topic in P13:** 87 marks in 7 papers, in every paper, with a long question in 6 of them.

Paper	What was asked	Marks
Jun'23	Q2(b) managerial remuneration case (MD 5%, others 1%) · Q3(b) minimum independent directors, unlisted vs listed	8 + 5
Dec'23	Q2(b) omnibus approval of RPTs: conditions · Q3(a) s.180 restrictions on the Board · Q5(a) acts of a director whose appointment is invalid	7 + 7 + 7
Jun'24	MCQs: ID threshold ₹10 crore; small shareholder ₹20,000; expert as additional director · Q4(b) AGM rejected him, Board makes him additional director: valid?	6 + 7
Dec'24	MCQs: removal by ordinary resolution; DIN application = Rule 9 · Q3(a) **board composition case** (IDs, related director, bank nominee, woman director)	4 + 7
Jun'25	Q1 (i)–(iv): the same board composition case as a 4-MCQ set	8
Dec'25	Q2(a) **s.160 candidature notice**: govt company / ballot / vernacular newspaper	7
Jun'26	Q2(b) KMP holding office in more than one company (s.203) · Q3(a) **s.160 again**, almost word for word	7 + 7

HOW IT IS EXAMINED

- **Case questions with numbers**: "is the board properly constituted?", "how many IDs?", "is this remuneration within limits?". Learn the **thresholds table** (next page) and the **case checker** flow.
- **Repeats:** the board composition case came in Dec'24 and again in Jun'25. s.160 came in Dec'25, again in Jun'26, and is in ICMAI's MQP. Model answers are at the end of this pack.
- **The exam copies the SM here too:** Dec'23 Q2(b) and Q3(a) are SM sentences. Dec'24 Q1(iii) and Jun'24 Q1(iii) are SM exercise MCQs 46 and 45.

DEC'26: OUR PREDICTION (A PREDICTION, NOT A PROMISE)

Tier **A** (must prepare). Expected **9–14 marks**: a 7-mark case or theory question plus 1–2 MCQs. Our model gives it a 60% chance of being the 4-MCQ case set in Q1. Likely questions:

1. Board composition case: IDs, woman director, nominee, related director (asked 2×)
2. Managerial remuneration limits with a calculation (last long question Jun'23, so overdue)
3. Resignation (s.168) and removal (s.169) of a director (ICMAI PTP)
4. Additional / alternate / casual-vacancy director (s.161; Jun'24)

MAP OF THIS PACK (★ = exam weight)

1. Board structure and thresholds, s.149 ★★★
2. Appointment, rotation, s.160 notice ★★★
3. Additional, alternate, nominee, casual; small shareholders ★★
4. Disqualification, vacation, resignation, removal ★★
5. MD, WTD, manager (s.196) and KMP (s.203) ★★
6. Remuneration s.197–202 ★★★
7. Powers s.179 and restrictions s.180 ★★
8. DIN s.153–159 + KYC amendment ★
9. Loans s.185, interest s.184, RPT s.188 ★★
10. Model answers · numbers · SM MCQs

1 Board structure: who must be on the Board (s.149)

WHAT IT IS Every company is run by a Board of individual directors who act **collectively**. The Act fixes how many directors there must be, and which companies need a woman director, a resident director and independent directors. Most case questions are just these thresholds applied to the facts. [SM 82–83]

Requirement	Rule	SM
Minimum directors	public company **3** · private company **2** · OPC **1** [SM 83]	149(1)
Maximum directors	**15**; more by **special resolution**. The limit does not apply to Government and section 8 companies [SM 83]	149(1)
Woman director (at least 1)	(1) every **listed** company; (2) every other **public** company with paid-up capital **≥ ₹100 crore** or turnover **≥ ₹300 crore**. A new company complies within **6 months** of incorporation. An intermittent vacancy is filled by the next Board meeting or within **3 months**, **whichever is later** [SM 83–84]	Rule 3
Resident director (at least 1)	stayed in India at least **182 days** in the financial year [SM 84]	149(3)
Independent directors (IDs)	**Listed:** at least **one-third** of all directors (a fraction counts as one). **Other public companies: at least 2 IDs** if paid-up capital **≥ ₹10 crore**, OR turnover **≥ ₹100 crore**, OR loans + debentures + deposits **> ₹50 crore** (on the last audited date). A higher number applies if the audit committee needs more. Intermittent vacancy: next Board meeting or **3 months**, whichever is later [SM 84]	149(4), Rule 4
Whole-time KMP	listed companies + public companies with paid-up capital **≥ ₹10 crore**: MD / CEO / manager (or WTD) + CS + CFO (see part 5) [SM 96]	203, Rule 8

⚠ SM SAYS TWO THINGS

For the resident director, the SM first says "182 days in the **financial year**" (the current Act) and then "in the previous calendar year" (the old wording). Write **financial year**. [SM 84]

Who is an independent director? s.149(6): a director other than an MD, WTD or nominee director

[SM 84–85]

a. a person of **integrity** with relevant expertise and experience, in the Board's opinion

b. is not and was not a **promoter** of the company or its holding, subsidiary or associate company, and is **not related** to its promoters or directors

c. has or had **no pecuniary relationship** with them (apart from remuneration as a director, or transactions up to **10%** of his total income) in the **2 preceding financial years** or the current year

d. no **relative** holds securities above **₹50 lakh** face value or **2%** of paid-up capital, is indebted or has given guarantees beyond prescribed limits, or has other transactions of **2%** or more of turnover or income

e. neither he nor a relative was a **KMP or employee** in the **3 preceding financial years**, or a partner or employee of its **audit, CS or cost-audit firm**, or of a legal or consulting firm with **10%**+ of its turnover from the company; does not hold **2%**+ of voting power with relatives; is not CEO or director of an NGO getting **25%**+ of its receipts from the company

f. has other prescribed qualifications. He registers in the **IICA databank** and passes its test; exempt with **10 years** as a KMP, advocate, or practising CA/CMA/CS, or in equivalent government service [SM 85–86]

Case checker: "Is the Board properly constituted?"

1 · KIND OF COMPANY listed? public or private? note paid-up capital, turnover, borrowings → **2 · NUMBER** ≥ 3 public / 2 private; ≤ 15 unless special resolution → **3 · IDs NEEDED** listed: ⅓ · public with ₹10 cr capital / ₹100 cr turnover / > ₹50 cr borrowings: 2 → **4 · WHO QUALIFIES** strike out MD, WTD or functional directors, nominees, promoters, relatives of promoters → **5 · WOMAN + RESIDENT** listed / ₹100 cr capital / ₹300 cr turnover → 1 woman; 1 resident (182 days) → **6 · KMP** listed / ₹10 cr capital → MD-CEO + CS + CFO

Write the answer in the same order: **provision** → **facts** → **conclusion** for each point, then **"what the company must do"**. A worked answer is in part 10.

2 Appointment, rotation and the s.160 notice

s.152: how directors are appointed [SM 86]

- If the articles name no first directors, the **individual subscribers to the memorandum** are deemed first directors; in an OPC, the individual member. [SM 86]
- Directors are appointed by the company **in general meeting**, unless the articles provide another method. [SM 86]
- No appointment without a **DIN**. The person gives his DIN and a declaration that he is **not disqualified**, and files his **consent** with the Registrar within **30 days** in **DIR-12**. Consent filing does not apply to Government appointees or section 8 companies. [SM 86]

ROTATION s.152(6)

- At least **two-thirds** of directors retire by rotation (articles may make it more, or all). Directors appointed by CG, BIFR or FIs/banks are not counted. [SM 86]
- At every AGM **one-third** of the rotational directors retire (nearest to one-third). The **longest in office** since their last appointment go first; if they were appointed the same day, by agreement or **by lot**. [SM 86]
- The retiring director's re-appointment is placed before the meeting by default, unless he is disqualified. [SM 87]

VACANCY NOT FILLED s.152(7)

- The meeting stands **adjourned to the same day next week**, same time and place (the next working day if that is a national holiday). [SM 87]
- If it is not filled there either, the retiring director is **deemed re-appointed**, unless: his re-appointment was put and **lost**; he said in writing he is **unwilling**; he is **disqualified**; a special or ordinary resolution is needed by the Act; or **s.162** applies. [SM 87]
- s.152(6)–(7) do not apply to a **100% Government company** or its wholly-owned subsidiary. [SM 87]

s.160: a person other than a retiring director stands for election [SM 87–88]

NOTICE the candidate or a member leaves a written notice at the registered office at least **14 days** before the meeting [SM 87] → **DEPOSIT** **₹1,00,000**, refunded if he is elected or gets **more than 25%** of valid votes. No deposit if NRC or Board recommends him [SM 87] → **COMPANY INFORMS MEMBERS** at least **7 days** before the meeting (Rule 13): individual notices (e-mail or in writing) + its website [SM 87–88] → **OR ADVERTISES** at least **7 days** before, once in a **vernacular** newspaper of the district **AND** once in an **English** newspaper circulating there [SM 88]

s.160 does not apply to: a Government company whose **entire** paid-up capital is held by Government(s) · its wholly-owned subsidiary · a **private company** · a company whose **articles provide for election by ballot**. [SM 88]

EXAM ANGLE: ASKED IN DEC'25 Q2(a) AND JUN'26 Q3(a), AND IN ICMAI'S MQP. THE THREE SITUATIONS AND THEIR ANSWERS

Situation	Answer
(i) the company is a **Government company** and the Government was told	s.160 **does not apply** to a Government company whose entire paid-up capital is held by Government, so the member has no right to propose under s.160; the deposit procedure does not arise. (If Government holds less than 100%, s.160 applies normally.)
(ii) the **articles provide for election by ballot**	s.160 **does not apply**; directors are elected by ballot as the articles say, so the proposal is not valid under s.160.
(iii) public company, no individual notices, advertised **only in a vernacular newspaper** 7 days before	**Not valid.** Rule 13 lets the company skip individual notices only if it advertises at least 7 days before in a vernacular newspaper **and** in an English newspaper circulating in the district. The member's own notice (14 days before, with ₹1 lakh) is in order.

Proportional representation, s.163 [SM 90–91]

The articles may provide for at least **two-thirds** of directors to be appointed by proportional representation (single transferable vote, cumulative voting or similar), once every **3 years**. It gives the minority fair representation. Casual vacancies are filled under s.161(4). It does not apply to 100% Government companies or their wholly-owned subsidiaries. [SM 90–91]

3 Additional, alternate, nominee and casual-vacancy directors (s.161); small shareholders' director (s.151)

Type	Who appoints · when · how long	Traps
Additional 161(1)	the **Board**, if the **articles** allow, at any time. Holds office **up to the next AGM** or the last date the AGM should have been held, **whichever is earlier** [SM 88]	a person who **failed to be appointed at a general meeting cannot be made an additional director** (Jun'24 Q4(b)) [SM 88]
Alternate 161(2)	the **Board**, if authorised by the articles or a general-meeting resolution, in place of a director absent from India for **at least 3 months** [SM 88]	not someone already an alternate in the company · for an ID, must qualify as an ID · vacates when the original **returns to India** · term no longer than the original's · whether to appoint is the **Board's** choice, not the original director's [SM 88–89]
Nominee 161(3)	the **Board**, subject to the articles, appoints the person nominated by an institution (under a law or an agreement) or by Government through its shareholding [SM 89]	"nomination" is not "appointment": the Board must still appoint properly · a nominee **cannot be an ID** (s.149(6)) [SM 84] [SM 89]
Casual vacancy 161(4)	a director appointed in general meeting leaves before his term ends → the **Board** fills it at a Board meeting, **approved at the next general meeting** [SM 89]	the new director holds office only until the date the vacating director would have held it [SM 89]

SM example: the retired CMD of a Government steel plant is appointed the next day as a full-time additional director of a private steel company; he holds office till the next AGM. [SM 88]

SMALL SHAREHOLDERS' DIRECTOR (s.151): LISTED COMPANIES

- **Small shareholder** = holds shares of nominal value **up to ₹20,000** [SM 89]
- Elected on notice from **1,000** small shareholders or **one-tenth** of them, **whichever is lower**; the company may also appoint one **suo motu** [SM 89–90]
- Notice of the candidate at least **14 days** before the meeting, with his DIN, a "not disqualified" statement and his consent [SM 90]
- Treated as an **ID** if he qualifies under s.149(6) [SM 90]

ITS LIMITS

- **not** liable to retire by rotation; tenure at most **3 consecutive years**; **no re-appointment** [SM 90]
- small shareholders' director in at most **2 companies**, and the second must not compete with the first [SM 90]
- for **3 years** after leaving, not associated with the company in any other capacity [SM 90]
- vacates on a s.164 disqualification, a s.167 vacancy, or losing independence [SM 90]

MEMORY HOOK: s.161 IN ONE LINE

A-A-N-C: **A**dditional till the AGM · **A**lternate while abroad 3 months · **N**ominee because someone nominated · **C**asual for the rest of the term. The Board appoints all four.

4 Disqualification, vacation, resignation and removal

s.164(1): NOT ELIGIBLE FOR APPOINTMENT IF HE ...

a. is of **unsound mind**, so declared by a court
b. is an **undischarged insolvent**
c. has **applied to be declared insolvent**, application pending
d. was **convicted** and sentenced to at least **6 months**, and **5 years** have not passed since the sentence ended. With a sentence of **7 years** or more: never, in any company
e. is under a court or Tribunal **disqualification order**
f. has **not paid calls** on his shares for **6 months** after the last date
g. was convicted under **s.188** (RPTs) in the last **5 years**
h. has **no DIN**
i. holds more directorships than **s.165(1)** allows

[SM 91]

s.164(2): THE DEFAULTING-COMPANY RULE

A director of a company that (a) has not filed financial statements or annual returns for **3 continuous financial years**, or (b) has not repaid deposits or debentures, interest, or preference dividend for **1 year or more** cannot be re-appointed there or appointed elsewhere for **5 years**. A new appointee in a defaulting company gets **6 months'** grace. Not applicable to **Government companies**. A private company's articles may add more disqualifications. [SM 91–92]

When (d), (e), (g) take effect: not for **30 days** from the conviction or order; if an appeal is filed within 30 days, until **7 days** after it is disposed of; if a further appeal is filed within 7 days, until that is disposed of. [SM 92]

s.167: the office becomes vacant if he ... [SM 93–94]

1. incurs a **s.164 disqualification**. Under s.164(2) he vacates in **all companies except the defaulting one**
2. **absents himself from all Board meetings for 12 months**, with or without leave
3. acts against **s.184** (contracts in which he is interested)
4. **fails to disclose** his interest under s.184
5. is **disqualified** by a court or Tribunal order
6. is **convicted** and sentenced to at least **6 months** (with the same 30-day and 7-day appeal relief)
7. is **removed** under the Act
8. was a director because of his **job in the holding, subsidiary or associate company**, and that job ends

If he acts as a director knowing the office is vacant: fine **₹1 lakh to ₹5 lakh**. If **all** directors vacate, the **promoter** (or else the Central Government) appoints directors until the general meeting does. A private company's articles may add grounds. [SM 94]

RESIGNATION s.168 (ICMAI PTP Q2(b))

1. the director gives **written notice** to the company
2. the **Board takes note** of it
3. the company files **DIR-12** with the Registrar within **30 days** and posts it on its **website**
4. it is mentioned in the **directors' report** at the next general meeting
5. the director **may** send a copy with detailed reasons to the Registrar within **30 days** in **DIR-11**

[SM 92]

REMOVAL s.169 (Dec'24 MCQ: ordinary resolution)

1. by **ordinary resolution**, after giving him a **reasonable opportunity of being heard**. Not for a director appointed by the **Tribunal (s.242)**. An ID in his **second term** can be removed only by **special resolution**. Directors elected by proportional representation (s.163) cannot be removed this way
2. **special notice** from members to remove him or to appoint someone in his place
3. the company sends him a copy at once; he may be **heard at the meeting** (member or not)
4. the vacancy may be filled at the **same meeting** if special notice was given; the new director serves the **remaining term**. Otherwise it is filled as a casual vacancy, but the **removed director cannot be re-appointed**
5. his right to **compensation or damages** stays

[SM 92–93]

5 Managing director, whole-time director, manager (s.196) and KMP (s.203)

Term	Meaning
Managing director 2(54)	a director entrusted with **substantial powers of management** by the articles, an agreement, or a general-meeting or Board resolution. Routine acts (affixing the seal, signing cheques or negotiable instruments, share certificates, registering transfers) are **not** "substantial powers" [SM 94]
Whole-time director 2(94)	a director in the **whole-time employment** of the company, e.g. Director (Finance) or Director (Commercial): an executive director [SM 94]
Manager 2(53)	an individual who, under the Board's control, manages the **whole or substantially the whole** of the affairs [SM 94–95]

s.196: APPOINTING MD / WTD / MANAGER

- never an MD **and** a manager at the same time [SM 95]
- term at most **5 years** at a time; re-appointment not earlier than **1 year** before the term ends [SM 95]
- **not** if: below **21** or has reached **70** (70+ allowed by **special resolution**); an undischarged or adjudged insolvent; has suspended payments to creditors; convicted and sentenced to more than **6 months** [SM 95]
- **Schedule V:** not jailed, or fined above **₹1,000**, under the **16** listed Acts; not detained under COFEPOSA; **resident in India**, i.e. stayed **12 months** continuously before appointment [SM 95]

PROCEDURE s.196(4)

1. the **Board** approves the appointment, terms and remuneration at a meeting
2. approval by **shareholders' resolution** at the next general meeting
3. if it departs from **Schedule V**: **Central Government** approval
4. the notice states the terms, remuneration and directors' interest
5. return in **MR-1** to the Registrar within **60 days**

s.196(5): if the general meeting does not approve, his acts **before** that are **deemed valid**. [SM 95–96]

⚠ SM SAYS TWO THINGS · AND A PAST QUESTION THE SM DOES NOT COVER

The SM's Schedule V list ends with "any act done by him deemed to be **invalid**", but s.196(5) on the next page says acts before non-approval are deemed **valid**. **Write "valid" (s.196(5)).** [SM 95–96]
Dec'23 Q5(a) "How far will the acts of a director be invalid if his appointment is not valid?" is answered by **s.176**, which is not in the SM. Acts done by a person as a director are **not invalid** just because a defect or disqualification in his appointment, or its termination, is noticed later. But this gives **no validity to acts done after** the company has noticed the defect.

s.203: Key Managerial Personnel [SM 96–97]

WHO AND WHEN

- **Listed** companies and **public** companies with paid-up capital ≥ **₹10 crore** must have whole-time KMP: (1) **MD or CEO or manager** (if none, a WTD); (2) **CS**; (3) **CFO** [SM 96]
- One person may **not** be both **chairperson** and **MD/CEO**, unless the **articles allow** or the company does not carry on **multiple businesses** [SM 96]
- Appointed by **Board resolution** stating terms and remuneration [SM 96]
- A KMP vacancy is filled by the Board within **6 months** [SM 97]

MORE THAN ONE COMPANY (JUN'26 Q2(b))

- A whole-time KMP shall **not hold office in more than one company** at the same time, **except in its subsidiary** [SM 96]
- He may be a **director** of any company **with the Board's permission** [SM 96]
- A company may appoint as its MD a person who is MD or manager of **one, and not more than one,** other company, by a **unanimous Board resolution** of the directors present, with **specific notice** to all directors in India [SM 97]
- *Example:* X is CFO of A Ltd. He can also be CFO of A's subsidiary B Ltd, and a director of C Ltd with A's Board permission, but not CFO of unrelated D Ltd.

6 Managerial remuneration (s.197–s.202)

Who (public companies)	Limit: % of net profits	To pay more
All directors incl. MD, WTD, manager, together	**11%**	general meeting, subject to Schedule V
One MD / WTD / manager	**5%**	special resolution
More than one MD / WTD / manager, together	**10%**	special resolution
Other directors, **when there is** an MD or WTD	**1%**	special resolution
Other directors, **when there is no** MD or WTD	**3%**	special resolution

If the company has defaulted to a bank, PFI, NCD holders or a secured creditor, their **prior approval** comes before the special resolution. The **auditor certifies** that the remuneration is within limits. Net profit is computed under **s.198**, **without deducting the**

directors' remuneration. [SM 97]

- **Fixed by** the articles, a resolution, or a special resolution if the articles require. It **includes** pay for any other capacity, except **professional services** where the NRC or Board finds he is qualified for that profession. [SM 98]
- **Sitting fees:** up to **₹1 lakh per meeting** of the Board or a committee. For IDs and women directors, not less than other directors get. Sitting fees are **outside** the % limits. [SM 98]
- **Mode:** monthly payment, a % of net profits, or both. Fidelity or misfeasance insurance premium is **not** remuneration. [SM 98]
- **No or inadequate profits:** pay only under **Schedule V**, otherwise with **Central Government** approval. No increase is effective unless it meets Schedule V. [SM 98–99]
- **Excess drawn:** refund within **2 years** (held in trust until then). Waiver only by **special resolution** within 2 years. [SM 99]
- **Listed company's Board report:** each director's pay as a **ratio to the median employee**; the **top 10** earners; anyone paid at least **₹1.25 crore** a year or **₹8.5 lakh a month** (SM: "eight lakh fifty thousand"), or more than the MD while holding **2%**+ equity with spouse and children. [SM 99]
- An MD or WTD on commission may also take pay or commission from the **holding or subsidiary company**, if disclosed in the Board's report. [SM 99]
- **Contravention:** fine **₹1 lakh to ₹5 lakh**. The **auditor's report** states whether the remuneration complies. [SM 100]
- **s.200:** when fixing pay with no or inadequate profits, the Government or company considers the financial position, pay from other capacities and companies, qualifications, performance in the **3 preceding years**, the pay-to-performance link, proportionality, and the director's securities and pledges. [SM 102]

⚠ SM SAYS TWO THINGS

On waiving a refund, the SM gives both "by **special resolution** within two years" (the current Act) and "unless permitted by the **Central Government**" (the old Act). **Write special resolution.** [SM 99]

s.198 NET PROFIT IN BRIEF

Add: Government bounties and subsidies. **Do not credit:** premium on shares or debentures, profit on forfeited shares, capital profits, profit on sale of fixed assets (except the part up to original cost), fair-value and revaluation gains. **Deduct:** working charges, directors' remuneration, staff bonus and commission, interest, repairs (not capital), depreciation under s.123, past losses, legal damages, bad debts. **Do not deduct:** income tax, voluntary compensation, capital losses, fair-value changes. [SM 100–101]

s.202: COMPENSATION FOR LOSS OF OFFICE

Payable **only to an MD, WTD or manager**. **Not** payable if he resigns on a reconstruction or amalgamation and is re-employed; resigns in the normal course; vacates under s.167(1); the winding up was due to his negligence; he committed fraud, breach of trust or gross mismanagement; or he brought about his own termination. **Cap:** his pay for the rest of the term or **3 years**, whichever is **shorter**, on his average pay over the last 3 years. Nothing is paid if winding up starts within **12 months** after he leaves and the assets cannot repay shareholders' capital. [SM 108–109]

Recovery on restatement: if the financial statements are restated for fraud or non-compliance, any excess pay (including stock options) is recovered from past or present MDs, WTDs, managers or CEOs. [SM 109]

7 Powers of the Board (s.179) and restrictions (s.180)

The Board may exercise **all powers the company has**, collectively. No individual director has any power unless specifically authorised. The articles and the general meeting may restrict it, but a later restriction does **not invalidate a prior valid act** of the Board. [SM 102]

ONLY BY RESOLUTION AT A BOARD MEETING, s.179(3) + Rule 8

1. make **calls** on unpaid shares
2. authorise **buy-back** (s.68)
3. **issue securities**, including debentures
4. **borrow** money
5. **invest** the company's funds
6. grant **loans**, guarantees or security
7. approve the **financial statements and Board's report**
8. **diversify** the business
9. approve **amalgamation, merger, reconstruction**
10. **take over** a company or acquire a controlling stake
11. Rule 8: **political contributions** · appoint or remove **KMP** · appoint **internal and secretarial auditors**

The Board may **delegate** borrowing, investing and lending to a committee, the MD, the manager or principal officer, or a branch's principal officer. [SM 102–103]

ONLY WITH SHAREHOLDERS' SPECIAL RESOLUTION, s.180(1) (DEC'23 Q3(a))

a. **sell, lease or dispose** of the whole or substantially the whole of an **undertaking**. Undertaking = investment above **20%** of net worth, or **20%** of total income. Substantially the whole = **20%** or more of its value
b. **invest** merger or amalgamation **compensation** other than in trust securities
c. **borrow** beyond **paid-up capital + free reserves + securities premium**. Temporary loans from bankers are excluded (repayable on demand or within **6 months**, not for capital purposes); so are bank deposits taken by a banking company. The resolution states the **maximum amount**
d. **remit** or give time to repay a **debt due from a director**

A buyer or lessee in **good faith** is protected, as are sales in the ordinary course of a company whose business is selling or leasing. The SM says s.180 does not apply to a **private company**. [SM 103–104]

Shareholders may step in when the directors act mala fide, the Board is incompetent (e.g. all directors interested, or no valid Board), or there is a deadlock. [SM 104]

8 Director Identification Number (DIN), s.153–159

APPLY (s.153, RULE 9)
DIR-3 online with photo, ID and address proof, signature; verified by the company's CS, MD, director, CEO or CFO. At incorporation via **SPICe INC-32** for up to **3** directors [SM 105]

→

ALLOT (s.154, RULE 10)
Central Government decides within **1 month**; defects cured within **15 days**; DIN valid **for life** [SM 105–106]

→

DIRECTOR → COMPANY (s.156)
within **1 month** of receiving the DIN (DIR-3B) [SM 106–107]

→

COMPANY → ROC (s.157)
within **15 days** (DIR-3C). Default: fine **₹25,000 to ₹1,00,000** on the company and each officer [SM 106–107]

- **Only one DIN** per person (s.155). Mention the DIN in every return (s.158). [SM 106–107]
- **s.159 penalty** for breaking s.152, 155 or 156: up to **₹50,000**, plus **₹500** a day if it continues. [SM 107]
- **Cancelled or deactivated** if: duplicate · obtained wrongfully · death · unsound mind · insolvency · surrendered in **DIR-5** (never used). [SM 107]
- **Change of particulars: DIR-6** within **30 days**, certified by a practising CA, CS or CMA; tell the companies within **15 days**. [SM 107–108]
- **Dec'24 MCQ:** the DIN application procedure is in **Rule 9**. [SM 105]

DEC'26 SUPPLEMENTARY: DIRECTOR KYC (COMPANIES (APPOINTMENT AND QUALIFICATION OF DIRECTORS) AMENDMENT RULES, 2025) · EFFECTIVE 31 MARCH 2026

- Annual KYC is replaced by an abridged KYC **once in every 3 consecutive financial years**: **DIR-3 KYC** web filing by **30 June** after every third year. [Supp Dec'26 p.2]
- A change in mobile number, e-mail or residential address is updated within **30 days** of the change. [Supp Dec'26 p.2]

9 Loans to directors (s.185), disclosure of interest (s.184), related party transactions (s.188)

s.185: LOANS TO DIRECTORS

- **Prohibited:** a loan, guarantee or security for a director of the company or its holding company, a partner or relative of such a director, or a firm in which such a director or relative is a partner. [SM 109]
- **Allowed to "a person in whom a director is interested"** (a private company where he is director or member; a body corporate where directors control **25%**+ of votes; a body corporate whose board follows his directions) if (a) a **special resolution** is passed with full particulars, and (b) the money is used for its **principal business**. [SM 109]
- **Exempt:** a loan to an MD/WTD under conditions of service for all employees, or a scheme approved by special resolution · a lending company charging at least the **G-sec yield** (1, 3, 5 or 10 years, nearest the tenor) · a holding company's loan to, or guarantee for, its **wholly-owned subsidiary** · a guarantee for a bank loan to a subsidiary (used for principal business). [SM 109–110]
- **Penalty:** company **₹5 lakh to ₹25 lakh**; director and borrower: up to **6 months** in jail, or a fine of ₹5–25 lakh, or both. [SM 110]
- **Private company exemption** if: no body corporate has invested in it; borrowings below **twice** its paid-up capital or **₹50 crore**, whichever is lower; no default. [SM 110]

s.184: DISCLOSURE OF INTEREST

- **When:** at the **first Board meeting** he attends, at the first meeting **each financial year**, and at the first meeting **after any change**, by written notice. [SM 111]
- **Contracts:** if he (alone or with another director) holds more than **2%** of the other body corporate, or is its promoter, manager or CEO, or is a partner, owner or member of the firm: he **discloses and does not participate**. [SM 111]
- **Result:** the contract is **voidable at the company's option**; penalty **₹1 lakh**. **Exception:** contracts between two companies where directors hold **2% or less**. [SM 111]
- **Cases:** a formal disclosure is not needed if the whole Board knows (*Ramakrishna Rao v. Bangalore Race Club*), but *Guinness v. Saunders* requires formal disclosure even when it is known. "Interest" includes family closeness (*Firestone Tyre v. Synthetics & Chemicals*). [SM 111–115]
- **Quorum:** if interested directors are **two-thirds or more** of the Board, the quorum is the non-interested directors present, at least **2** (s.174). [SM 114]

s.188: related party transactions (RPTs) [SM 112–114]

NEED BOARD CONSENT AT A MEETING

a. sale, purchase or supply of goods or materials
b. selling, disposing of or buying property
c. leasing property
d. availing or rendering services
e. appointing an agent for buying or selling
f. a related party's appointment to an **office or place of profit**
g. underwriting the company's securities

The related party **shall not vote** (except where **90%** of shareholders are related parties). **No shareholder approval** is needed for ordinary-course, arm's-length deals or holding–WOS deals. Unratified contracts are voidable. [SM 112]

ALSO NEED SHAREHOLDERS' RESOLUTION ABOVE ...

goods (sale, purchase, supply)	**10%** of turnover or **₹100 cr**, lower
property (buy, sell)	**10%** of net worth or **₹100 cr**, lower
leasing	**10%** of net worth or turnover, or **₹100 cr**
services	**10%** of turnover or **₹50 cr**, lower
office or place of profit	pay above **₹2.5 lakh a month**
underwriting	above **1%** of net worth

The limits apply per transaction or together during a financial year. [SM 113–114]

OMNIBUS APPROVAL, RULE 8A (DEC'23 Q2(b), 7 MARKS: THE SM'S OWN SENTENCE)

SM WORDS "All related party transactions shall require approval of the Audit Committee and the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to the following conditions":

1. The Audit Committee, **after Board approval**, specifies the criteria: maximum value a year and per transaction; extent of disclosures; periodic review; transactions not allowed under omnibus approval.
2. It considers the **repetitiveness** of the transactions and the **justification** for omnibus approval.
3. It satisfies itself that the approval is **needed** and in the **company's interest**.
4. The approval states the **related parties**, the nature and duration, the **maximum amount**, and the indicative or current price and variation formula. For unforeseen needs: up to **₹1 crore per transaction**.
5. It is valid for at most **one financial year**.
6. Never for **selling or disposing of the undertaking**.
7. Any other conditions the Audit Committee thinks fit.

[SM 112–113]

10 Model answers: our top two Dec'26 questions on 1.5

MODEL ANSWER 1 · BOARD COMPOSITION CASE (DEC'24 Q3(a), JUN'25 Q1) · 7 MARKS

Facts (Dec'24): Mirinda Ltd, an unlisted public company with paid-up capital ₹40 crore and turnover ₹350 crore. Board: the promoter MD; a non-executive Chairman (not an ID); Director (Finance); Director (Operations), related to the promoter. CS: Ms Supriti. A nationalised bank will nominate a director (a woman, in Jun'25). Is the Board properly constituted, and what must be done?

Point	Provision	Applied to the facts
Number	public company: at least 3 directors (s.149(1)) [SM 83]	4 directors: **complies**
Independent directors	unlisted public company with paid-up capital ≥ ₹10 crore or turnover ≥ ₹100 crore: **at least 2 IDs** (s.149(4), Rule 4) [SM 84]	₹40 cr capital and ₹350 cr turnover, so 2 IDs are needed. **None qualifies:** the MD and the two functional directors are whole-time; Director (Operations) is **related to the promoter**; the Chairman is not an ID. → **Appoint 2 IDs**
Woman director	public company with turnover ≥ ₹300 crore: at least **1 woman director** (Rule 3) [SM 83–84]	turnover ₹350 cr, so one is needed; there is none → **appoint one**
Bank's nominee	the Board appoints a nominee under s.161(3); a nominee **cannot be an ID** (s.149(6)) [SM 84–89]	she can sit as nominee director. She **does not count as an ID**, but the rule asks only for "a woman director", so she can meet the woman-director requirement (Jun'25 Q1(iv), option C) ⚠
KMP	public company with paid-up capital ≥ ₹10 crore: MD/CEO + CS + **CFO** (s.203, Rule 8) [SM 96]	MD and CS exist; **designate or appoint a CFO** if Director (Finance) is not formally the CFO

Conclusion: the Board is **not properly constituted**. Mirinda must appoint **two independent directors** and **a woman director** (the bank's woman nominee can fill that), and make sure a **CFO** is in place.

⚠ ICMAI's suggested answer is not with us yet. The nominee-as-woman-director point follows the rule's wording; check it when the suggested answers are downloaded.

MODEL ANSWER 2 · MANAGERIAL REMUNERATION CASE (JUN'23 Q2(b), 8 MARKS · OVERDUE)

Facts: AB Ltd, a listed company managed by an MD. Proposal: (i) MD, Mr M: commission at **5%** of net profits. (ii) Other directors: **₹50,000 a month** each plus commission at **1%** of net profits, with all their pay together capped at **2%** of net profits. Examine.

1. **Provision.** s.197(1): total pay to all directors ≤ **11%** of net profits; one MD ≤ **5%**; other directors ≤ **1%** where there is an MD. Exceeding a limit needs a **special resolution**. Net profit is computed under s.198 without deducting directors' pay. Pay may be monthly, a % of profits, or both (s.197(6)). Sitting fees are outside the limits. [SM 97–98]
2. **MD's 5% commission:** exactly at the 5% limit for one MD, so it is **valid** without a special resolution (shareholders still approve his terms under s.196).
3. **Other directors:** their monthly pay plus commission may reach **2%**, above their **1%** limit, so this part needs a **special resolution** in general meeting. Monthly payment is a permitted mode.
4. **Overall:** 5% + up to 2% = up to 7%, **within 11%**.
5. **Conclusion:** the MD's commission is in order. The other directors' package is valid only if the shareholders pass a **special resolution**. The auditor must state in his report that the remuneration complies with s.197.

SM exercise MCQs on 1.5, with answers **(SM 164–171 = ICMAI MCQ bank Q39–83; ★ = asked in an exam)**

39 additional director's tenure up to	**next AGM**	48 s.203 provides for appointment of	**KMP**
40 alternate: original absent from India at least	**3 months**	49 MD eligibility and conditions are in Schedule	**V**
41 woman director required if	**listed, or ₹300 cr turnover (either)**	50 maximum pay to all managerial personnel	**11%**
43 WTD appointed for a term of	**5 years**	51 IDs are not entitled to	**stock options**
44 deposit with s.160 proposal	**₹1 lakh**	52 Board's report is addressed to	**members**
45 small shareholder: face value up to ★	**₹20,000**	53 Board's powers may be restricted by	**Act, articles, GM: any or all**
46 remove a director by ★	**ordinary resolution**	54 RPTs are in section	**188**
47 MD's appointment ratified in AGM by	**ordinary resolution**	56 IDs meet separately, a year	**once**
64 executive chairman: IDs at least	**half**	80 a CFO must be a	**none (no fixed qualification)**
81 sitting fee: Board vs committee	**may differ**	82 disclosure of interest is	**all or any (first meeting, yearly, on change)**
83 Board quorum	**⅓ or 2, higher**	MCQ bank 266: small sh. director in at most	**2 companies**

Not in the 1.5 SM text, but in the MCQ bank: Q51 (IDs get no stock options) and Q64 (half IDs with an executive chairman) come from the SEBI/governance rules in Module 3.

R Revision: every number in 1.5

Rule	Number
directors: public / private / OPC	3 / 2 / 1
maximum directors (more by special resolution)	15
woman director: paid-up / turnover (public)	₹100 cr / ₹300 cr
woman director in a new company within	6 months
ID or woman vacancy: next Board meeting or	3 months, later
resident director stay	182 days
IDs in a listed company	one-third
2 IDs if paid-up / turnover / borrowings	₹10 cr / ₹100 cr / > ₹50 cr
ID: pecuniary limit / look-back	10% income / 2 yrs
ID: relative's holding limit	₹50 lakh or 2%
ID: KMP/employee cooling-off	3 yrs
ID: voting power / NGO receipts	2% / 25%
ID databank test exemption	10 yrs experience
consent DIR-12 filed within	30 days
rotational / retire each AGM	⅔ / ⅓
s.160 notice / deposit / refund if votes >	14 days / ₹1 lakh / 25%
company informs or advertises members	7 days before
alternate: director abroad at least	3 months
small shareholder nominal value	≤ ₹20,000
small shareholders' notice: 1,000 or	1/10, lower
small sh. director: tenure / companies / cooling	3 yrs / 2 / 3 yrs
proportional representation: share / every	⅔ / 3 yrs
s.164: sentence / wait / bar for life	6 m / 5 yrs / 7 yrs
unpaid calls for	6 months
s.164(2): not filed / deposit default / bar	3 FYs / 1 yr / 5 yrs
grace for new appointee in defaulter	6 months
appeal relief	30 days / 7 days
absent from all Board meetings for	12 months
acting while vacated: fine	₹1–5 lakh
resignation DIR-12 / DIR-11	30 / 30 days

Rule	Number
MD/WTD term / re-appoint not before	5 yrs / 1 yr
MD/WTD age (70+ by special resolution)	21–70
Schedule V: Acts / fine / residence	16 / ₹1,000 / 12 months
MR-1 within	60 days
KMP mandatory: paid-up (public)	₹10 crore
KMP vacancy filled within	6 months
overall / 1 MD / >1 MD	11% / 5% / 10%
others with MD / without MD	1% / 3%
sitting fee per meeting, maximum	₹1 lakh
refund of excess pay within	2 years
disclosure: yearly / monthly pay	₹1.25 cr / ₹8.5 lakh
s.197 contravention fine	₹1–5 lakh
s.202 cap / winding-up window	3 yrs / 12 months
s.180 undertaking / substantially whole	20% / 20%
temporary loans repayable within	6 months
DIN: CG decides / defects / SPICe directors	1 month / 15 days / 3
DIN to company / company to ROC	1 month / 15 days
s.157 fine	₹25,000–₹1 lakh
s.159 penalty	₹50,000 + ₹500/day
DIR-6 change / tell companies	30 / 15 days
KYC (Dec'26 supp.): every / by	3 FYs / 30 June
s.185: controlled body corporate	25% votes
s.185 penalty: company / jail	₹5–25 lakh / 6 months
s.185 private-co exemption: borrowings <	2× capital or ₹50 cr
s.184 shareholding test / penalty	2% / ₹1 lakh
interested ≥ ⅔ → quorum at least	2
RPT: goods / property	10% or ₹100 cr
RPT: services / office of profit	₹50 cr / ₹2.5 lakh pm
RPT: underwriting / related holders	1% NW / 90%
omnibus: unforeseen / validity	₹1 cr / 1 FY