Chapter 1 - Appointment and Qualifications of Directors

Comprehensive & exam-oriented notes with mega case study, provision triggers, MCQs and answer reasoning

Sources used only from your uploaded files: ICAI Chapter 1 module, Case Scenario Booklet, SPOM Set A All Important Points PDF, and Hemant Somani SPOM Law notes. No internet or outside source has been used.

How to use this document

- First read the mega case study and trigger map. It is designed to make every provision memorable through one continuous story.
- Then revise the section-wise notes. Each section is written in exam language but simplified into checklists, trigger points, and consequences.
- Finally solve the MCQ/case portion. The answers are placed immediately below each relevant case so that revision is direct and quick.

Exam approach: In director questions, first identify the type of company, then the type of director, then the event triggering appointment/disqualification/vacation/resignation/removal, and only then apply the section.

A. Mega Integrated Case Study - The Governance Journey of Trishul Infrastructure Limited

This opening case study is deliberately detailed. It links every major provision of Chapter 1 into one story. Read it like a movie: every fact is a legal trigger.

Facts

Trishul Infrastructure Limited (TIL) is incorporated as a public company on 1 April 2026. Its articles initially name no first directors. The subscribers to the memorandum are four individuals and one body corporate, Veda Holdings Private Limited. TIL proposes to become a listed public company within two years. Its latest audited financial statements later show paid-up share capital of Rs. 125 crore and turnover of Rs. 340 crore. During its growth phase, the following events happen:

- At incorporation, the company has to decide who are its first directors because the articles are silent.
- The promoters want 18 directors because the business has many verticals.
- TIL appoints only male directors initially; after the thresholds are crossed, it has no woman director.
- One director stays in India for only 150 days during the financial year.
- TIL wants to appoint independent directors. One candidate is a former CFO with no pecuniary relationship, another holds significant shares, and a third renders consulting services to TIL.
- A director wants to resign with effect from a future date, but the resignation letter reaches the company later.
- A promoter director is convicted for an offence and sentenced to 8 months imprisonment. He files an appeal.
- The Board wants to appoint the promoter's son as an additional director after shareholders earlier rejected him at a general meeting.
- A director goes outside India for four months and requests that his friend should be appointed as alternate director.
- A director appointed in general meeting dies before completion of term. The Board wants to fill the casual vacancy.
- The company wants to appoint several directors through one single resolution to save time.
- Small shareholders holding shares of nominal value below Rs. 20,000 demand representation on the Board.
- A director already holds office in 21 companies, including dormant companies, Section 8 companies, public companies and private companies.
- One director is absent from all Board meetings held during 12 months.
- Another director enters into a contract in which he is interested and fails to disclose his interest.
- Shareholders want to remove a director before expiry of his term.

- TIL must maintain a register of directors and KMP and make it available for inspection.

Provision trigger map from the case

Trigger / Fact	Provision	Result / Consequence
Articles silent on first directors	Section 152(1)	Individual subscribers become first directors; body corporate subscriber cannot become a director because only individuals can be directors.
Board size above 15	Section 149(1)	Maximum is 15 directors unless special resolution is passed. Government/Section 8 exemptions apply only subject to no filing default.
Woman director threshold crossed	Section 149(1) + Rule 3	Every listed company and every other public company with paid-up share capital Rs. 100 crore or more or turnover Rs. 300 crore or more must have at least one woman director.
Vacancy of woman director	Rule 3	Fill at earliest but not later than immediate next Board meeting or 3 months from vacancy, whichever is later.
Resident director issue	Section 149(3)	Every company needs at least one director who stays in India for at least 182 days during the financial year; for newly incorporated company, proportionate test applies.
Independent director eligibility	Section 149(4), 149(6)	Listed public company needs at leoast one-third of total directors as IDs; prescribed public companies need at least 2 IDs. Independence criteria must be satisfied.
ID has shares/consulting relationship	Section 149(6)	Significant shareholding or material pecuniary/consulting relationship may destroy independence, subject to thresholds/exceptions.
ID declaration	Section 149(7)	Declaration at first Board meeting in which he participates, first Board meeting of every financial year, and whenever circumstances change.
ID tenure	Section 149(10), 149(11)	Up to 5 consecutive years per term, reappointment by special resolution, maximum 2 consecutive terms, 3-year cooling off.
ID data bank and test	Section 150 + Rule 6	Name inclusion in IICA data bank, renewal in time, declaration of compliance, online proficiency self-assessment test unless exempt.
Resignation with delayed receipt	Section 168	Effective from date on which notice is received by company or date specified by director, whichever is later.
Conviction with sentence >= 6 months	Section 164(1)(d)	Disqualification for appointment continues even where appeal/petition is filed for specified disqualifications.
Rejected person proposed as additional director	Section 161(1)	A person who failed to get appointed in general meeting cannot be appointed as additional director.
Alternate director for four-month foreign tour	Section 161(2)	Alternate director can be appointed during absence from India for not less than 3 months if articles/general meeting authorise; original director cannot demand a nominee as of right.
Casual vacancy	Section 161(4)	If office of director appointed in general meeting is vacated before term expires, Board may fill vacancy subject to articles; member approval in immediate next general meeting; appointee holds office only up to original director's remaining term.
Several directors by one resolution	Section 162	Directors must be voted individually unless proposal for single resolution is first agreed to without any vote against it; private companies exempt.
Minority representation	Section 163	Articles may provide proportional representation for at least 2/3rd of total directors, by single transferable vote, cumulative voting, or other method; once every 3 years.
Small shareholders' director	Section 151 + Rules	Listed company may have one small shareholders' director; small shareholder means shareholder holding shares of nominal value not more than Rs. 20,000.
Too many directorships	Section 165	Maximum 20 companies overall and maximum 10 public companies; public company count includes private companies that are holding/subsidiary of public companies. Dormant companies excluded.
Absence from all meetings for 12 months	Section 167(1)(b)	Office becomes vacant even if leave of absence was sought.
Interest not disclosed / contravention of Section 184	Section 167(1)(c)/(d)	Office becomes vacant on contravention or non-disclosure of interest.
Removal by shareholders	Section 169	Director may be removed by ordinary resolution after giving reasonable opportunity of being heard, subject to exceptions.
Register and inspection	Sections 170-171	Maintain register at registered office with prescribed particulars and shareholding; members can inspect, take extracts, and obtain copies free within 30 days.

What-if scenarios that make the case complete

What if...	Provision-wise answer
What if TIL were a private company?	Minimum directors would be 2. Section 162 is exempt for private companies. A private company may add extra disqualification grounds in its articles under Section 164(3).
What if TIL were an OPC with one director?	Minimum is 1 director and the sole member is deemed first director if articles are silent. Resident director and other applicable conditions still need to be checked, but board meeting relaxations belong to Chapter 3.

What if the body corporate subscriber wants to be a director?	It cannot. Section 149 requires individuals as directors. Only the individual subscribers can be deemed first directors under Section 152(1).
What if paid-up capital is Rs. 95 crore but turnover is Rs. 310 crore?	Woman director requirement is triggered because either paid-up capital Rs. 100 crore or more OR turnover Rs. 300 crore or more is enough for the prescribed public company.
What if the vacancy of woman director occurs one week before the next Board meeting?	Compare immediate next Board meeting with 3 months from vacancy; fill by the later date.
What if independent director is appointed for 3 years only?	It is still treated as one term under Section 149(10). Two such consecutive terms exhaust the consecutive-term limit even if total years are less than 10.
What if a candidate is related to promoter or director?	Fails independence criteria under Section 149(6).
What if ID receives sitting fee and reimbursement only?	Permitted. ID is not entitled to stock options; sitting fee, reimbursement and profit-related commission approved by members may be allowed.
What if ID fails to renew data bank registration within 30 days of expiry?	Name stands removed from data bank unless life-time inclusion fee was paid; this can affect eligibility/declaration compliance.
What if director is convicted and sentenced to 7 years?	He is permanently ineligible to be appointed as director in any company under Section 164(1)(d) proviso.
What if director is disqualified under Section 164(2) due to defaulting company?	He vacates office in all companies except the defaulting company and is not eligible for reappointment in that defaulting company or appointment in another company for 5 years from default.
What if a newly appointed director joins a defaulting company?	He gets a 6-month protection window from incurring Section 164(2) disqualification from the date of appointment.
What if the resigning director states an earlier effective date than receipt?	Effective date is later of receipt by company and date specified by director, so earlier specified date will not override late receipt.
What if a director who was removed by NCLT under oppression/mismanagement provisions seeks reappointment?	He is generally barred for 5 years without leave of Tribunal; this intersects with Chapter 6 but is flagged in Chapter 1 removal/vacancy context.
What if the register of directors is not made available at AGM?	Members' inspection right under Section 171 is violated; Registrar can order immediate inspection/supply of copies on application.

B. Section-wise Comprehensive Notes

1. Introduction: legal position of directors

- Board of Directors means the collective body of directors of the company. A director means a director appointed to the Board.
- A company is an artificial person; it acts through human beings. Directors manage the business affairs and take decisions collectively through the Board.
- Directors are agents when they bind the company in transactions with third parties.
- Directors are trustees/fiduciaries for company property, money, trade secrets and business opportunities. Directorship is an office of trust.
- A director may also be an officer of the company for certain purposes because the definition of officer includes director.
- Key exam point: The Board takes decisions collectively. Individual directors do not normally bind the company unless authorised.

2. Company to have Board of Directors - Section 149

Company type	Minimum directors	Maximum directors
Public company	3	15 unless special resolution permits more
Private company	2	15 unless special resolution permits more
One Person Company	1	15 unless special resolution permits more

- Only an individual can be appointed as director. Body corporate, firm or association cannot become a director.
- To appoint more than 15 directors, the company must pass a special resolution.
- Government company and Section 8 company exemptions exist for maximum-director requirements, subject to no default in filing financial statements under Section 137 or annual return under Section 92.

Woman director - Section 149(1) second proviso + Rule 3

- At least one woman director is mandatory for: (a) every listed company; and (b) every other public company having paid-up share capital of Rs. 100 crore or more OR turnover of Rs. 300 crore or more.
- Thresholds are checked as on the last date of latest audited financial statements.
- Newly incorporated company covered by the rule must comply within 6 months from incorporation.
- Intermittent vacancy must be filled by the Board at the earliest but not later than the immediate next Board meeting or 3 months from vacancy, whichever is later.

Memory hook: Woman director vacancy = Next Board Meeting vs 3 months -> later date.

Resident director - Section 149(3)

- Every company must have at least one director who stays in India for a total period of not less than 182 days during the financial year.
- For a newly incorporated company, the requirement applies proportionately at the end of the financial year of incorporation.

Executive, non-executive, nominee and independent directors

- Executive directors manage operations; managing director and whole-time director fall in this category.
- Non-executive directors participate in policy and governance oversight; nominee directors and professional directors fall here.
- Independent directors are a special category of non-executive directors; they are not the same as nominee directors.
- Nominee director protects the nominating financial institution/government interest. Independent director protects governance and stakeholder confidence.

3. Appointment of directors - Section 152

First directors

- If articles name first directors, those persons act as first directors.
- If articles are silent, individual subscribers to the memorandum are deemed first directors until directors are duly appointed.
- In an OPC, the individual member is deemed the first director until director(s) are duly appointed.
- Body corporate subscriber cannot be deemed director because only individuals can be directors.

Subsequent directors

- Every director is generally appointed by the company in general meeting, unless the Act expressly provides another method.
- Additional, alternate, nominee or casual vacancy appointments may be made by the Board if conditions under Section 161 are fulfilled.

Mandatory requirements before acting as director

Requirement	Form / Provision	Exam consequence
DIN	Section 152(3), Sections 153-154	A person can be appointed only after allotment of DIN or prescribed number.
Declaration of non-disqualification	Section 152(4)	Proposed director must furnish DIN and declaration that he is not disqualified.
Written consent	Form DIR-2	Appointed person shall not act as director unless written consent is given on or before appointment.
Company filing	Form DIR-12 within 30 days	Company files consent/appointment details with ROC within 30 days.
Land-border country national	Security clearance from MHA	Security clearance must be attached with consent.

- For independent director appointment in general meeting, explanatory statement must include Board opinion that the person fulfils conditions for appointment.

Retirement by rotation - Section 152(6) and 152(7)

- Applies to public companies and private companies that are subsidiaries of public companies.
- Unless articles provide retirement of all directors at every AGM, at least 2/3rd of total directors of a public company must be liable to retire by rotation.
- At every AGM, 1/3rd of rotational directors retire. If not exactly divisible by 3, nearest to 1/3rd retire.
- Persons longest in office retire first. Between persons appointed on same day, retirement is by agreement or lot.
- Retiring director may be reappointed at the AGM. If vacancy is not filled and meeting does not resolve not to fill it, meeting is adjourned. If at adjourned meeting also not filled and no resolution not to fill, the retiring director is deemed reappointed, subject to exceptions.
- Deemed reappointment will not apply if: resolution for reappointment was put and lost; retiring director expressed unwillingness; he is not qualified or is disqualified; resolution for appointment/reappointment is required to be special/ordinary; or Section 162 applies.

4. Director Identification Number - Sections 153 to 159

Section	Core rule
153	Application for allotment of DIN by individual intending to be appointed as director.

154	Central Government allots DIN within prescribed period.
155	No individual can apply for, obtain, or possess more than one DIN.
156	Existing director must intimate DIN to all companies in which he is director within one month of receiving DIN.
157	Company must furnish DIN of directors to Registrar within 15 days of receiving intimation.
158	DIN must be mentioned in relevant returns, information or particulars relating to directors.
159	Penalty for contravention of Sections 152, 155 and 156.

Cancellation/surrender/deactivation/reactivation of DIN - Rule 11

- DIN may be cancelled/deactivated if duplicated, obtained wrongfully or fraudulently, holder has died, holder declared unsound mind, holder adjudicated insolvent, or holder surrenders unused DIN in Form DIR-5.
- Wrongful DIN involves invalid/incomplete documents, suppression, wrong certification, misleading/false information or misrepresentation.
- Fraudulent DIN means DIN obtained with intent to deceive any person or authority including Central Government.
- Opportunity of being heard is required before cancellation/deactivation on wrongful/fraudulent grounds.

5. Right of persons other than retiring directors to stand for directorship - Section 160

- A person who is not a retiring director may stand for directorship if he or a member intending to propose him gives notice at least 14 days before general meeting.
- Notice must be deposited with Rs. 1 lakh or higher amount prescribed.
- Deposit is refunded if the person is elected or gets more than 25% of total valid votes cast on the resolution.
- Company must inform members of candidature at least 7 days before meeting by serving individual notices or by advertisement as prescribed.
- Section 160 does not apply to a company in which the entire paid-up share capital is held by government(s), subject to no filing default; other exemptions may apply as per notifications.

6. Small shareholders' director - Section 151 + Rules

- A listed company may have one director elected by small shareholders. It may do so on its own or on notice by prescribed small shareholders.
- Small shareholder means a shareholder holding shares of nominal value not more than Rs. 20,000 or such sum as prescribed.
- Notice by small shareholders must be given at least 14 days before meeting, signed by them, specifying candidate details and proposer details.
- Candidate statement must include DIN, non-disqualification declaration and consent to act as director.
- Small shareholders' director is considered independent director and must satisfy Section 149(6) and give declaration under Section 149(7).
- He is not liable to retire by rotation, tenure cannot exceed 3 consecutive years, and he is not eligible for reappointment after expiry of tenure.
- He cannot hold position as small shareholders' director in more than 2 companies at the same time, and the second company must not compete/conflict with first company.
- Cooling period: for 3 years after ceasing, he cannot be appointed in or associated with that company in any other capacity, directly or indirectly.

7. Special Board appointments - Section 161

Additional director - Section 161(1)

- Articles may confer on Board the power to appoint any person as additional director at any time.
- A person who failed to get appointed as director in a general meeting cannot be appointed as additional director.
- Additional director holds office up to date of next AGM or last date on which AGM should have been held, whichever is earlier.
- Regularisation as director requires compliance with Section 160 because additional director is not a retiring director.

Alternate director - Section 161(2)

- Board may appoint alternate director if authorised by articles or by resolution passed by company in general meeting.
- Alternate director acts for a director during absence from India for not less than 3 months.
- Alternate director cannot be a person holding alternate directorship for any other director in the same company and cannot be a director in the same company.
- Alternate for an independent director must be qualified to be appointed as independent director.
- Alternate director cannot hold office longer than original director and vacates office when original director returns to India.

- If term of original director ends before return to India, automatic reappointment provisions apply to original director, not alternate director.

Nominee director - Section 161(3)

- Board may appoint nominee director subject to articles, or pursuant to law, agreement, or appointment by Central/State Government by virtue of its shareholding in a government company.
- Nominee director is not an independent director merely because he is independent from other Board members.

Casual vacancy - Section 161(4)

- If office of a director appointed by company in general meeting is vacated before expiry of term, the resulting casual vacancy may be filled by Board at a Board meeting, subject to articles.
- Appointment must be subsequently approved by members at the immediate next general meeting.
- Appointee holds office only up to the date to which original director would have held office if vacancy had not occurred.
- If the person appointed to fill casual vacancy also vacates office, that does not create another casual vacancy under Section 161(4), because the vacancy is not of a director appointed by company in general meeting. Board may consider additional director route if articles permit.

8. Directors to be voted individually - Section 162

- Two or more persons cannot be appointed as directors by one single resolution.
- Exception: single resolution is valid only if a proposal to move such single resolution is first agreed to at the meeting without any vote being cast against it.
- A resolution moved in contravention is void whether or not objection was raised at the time.
- Motion for approving or nominating a person for appointment is treated as motion for appointment.
- Private companies are exempt. Certain government companies/wholly owned subsidiaries may be exempt subject to conditions.

9. Proportional representation - Section 163

- Articles of a company may provide for appointment of not less than 2/3rd of total number of directors according to principle of proportional representation.
- Methods may include single transferable vote, cumulative voting, or any other transparent/effective method ensuring fair minority representation.
- Such appointments may be made once in every 3 years.
- Casual vacancies of such directors are filled under Section 161(4).
- Section 163 overrides other provisions because it begins with a non-obstante clause.

10. Disqualifications for appointment of director - Section 164

General disqualifications - Section 164(1)

Ground	Explanation
Unsound mind	Declared by competent court.
Undischarged insolvent	Cannot be appointed.
Applied to be adjudicated insolvent	Application pending.
Convicted and sentenced to imprisonment at least 6 months	Disqualified until 5 years from expiry of sentence. If sentence is 7 years or more, not eligible to be appointed in any company.
Court/Tribunal order disqualifying appointment	Order must be in force.
Unpaid calls on shares	Six months elapsed from last date fixed for payment.
Convicted of offence relating to related party transactions under Section 188	At any time during last preceding 5 years.
No DIN	Non-compliance with Section 152(3).
Exceeds directorship limit	Non-compliance with Section 165(1).

Important: For disqualifications under clauses relating to conviction/order/RPT conviction, filing an appeal or petition does not remove the disqualification for appointment.

Company default disqualification - Section 164(2)

- A person who is or has been director of a company is disqualified if that company has not filed financial statements or annual returns for any continuous period of 3 financial years.
- Disqualification also arises if the company has failed to repay deposits or interest, redeem debentures or interest, or pay declared dividend, and such failure continues for 1 year or more.

- Such person is not eligible to be reappointed in that defaulting company or appointed in any other company for 5 years from the date of default.
- If a person is appointed as director in a defaulting company, he does not incur disqualification for 6 months from date of appointment.
- Government company exemption applies if it has not defaulted in filing financial statements/annual return as specified.

Additional disqualifications by private company - Section 164(3)

- A private company that is not a subsidiary of a public company may provide additional disqualifications in its articles.

11. Maximum number of directorships - Section 165

- No person can hold office as director, including alternate directorship, in more than 20 companies at the same time.
- Maximum number of public companies in which a person can be director is 10.
- For counting public companies, directorship in private companies that are holding or subsidiary companies of public companies is included.
- Dormant companies are excluded from the count of 20 companies.
- Members of a company may, by special resolution, specify a lesser number of companies in which a director of that company may act as director.
- If a person accepts appointment as director in contravention, he is liable to penalty for each day after the first during which contravention continues, subject to prescribed limits.

12. Independent Directors - Section 149 and Schedule IV

Applicability

Company	Requirement
Every listed public company	At least 1/3rd of total number of directors as independent directors. Fraction rounded up as one.
Unlisted public company having paid-up share capital Rs. 10 crore or more	At least 2 independent directors.
Unlisted public company having turnover Rs. 100 crore or more	At least 2 independent directors.
Unlisted public company having outstanding loans/debentures/deposits exceeding Rs. 50 crore in aggregate	At least 2 independent directors.
Joint venture, wholly owned subsidiary, dormant company	Rule 4 requirement does not apply as per exemption in study material.

Who can be an independent director - Section 149(6)

- Person of integrity and possessing relevant expertise and experience in the opinion of the Board.
- Not a promoter of the company, its holding, subsidiary or associate company.
- Not related to promoters or directors in the company, its holding, subsidiary or associate company.
- No pecuniary relationship, other than permitted remuneration/transactions within threshold, with the company, holding, subsidiary, associate, promoters or directors during two immediately preceding financial years or current financial year.
- Relative must not hold specified securities/interest, be indebted, give guarantee/security, or have other pecuniary transaction beyond prescribed thresholds.
- Neither the person nor his relatives should have held certain KMP/employee/professional/service provider/CEO-NGO positions within prescribed periods, subject to exceptions and thresholds.
- Must possess appropriate skills, experience and knowledge in fields such as finance, law, management, sales, marketing, administration, research, corporate governance, technical operations, or other disciplines related to the company business.

Declaration, code, remuneration and liability

- Every independent director gives declaration of independence at first Board meeting in which he participates, first Board meeting of every financial year, and whenever circumstances change.
- Company and independent directors must abide by Schedule IV, covering professional conduct, role, duties, appointment/reappointment, resignation/removal, separate meetings and evaluation.
- Independent director is not entitled to stock options.
- Permitted remuneration: sitting fee under Section 197(5), reimbursement for Board/other meetings, and profit-related commission approved by members; in inadequate profits, remuneration may be as per Schedule V.

- Independent director and non-executive director not being promoter/KMP are liable only for acts of omission/commission by company occurring with their knowledge attributable through Board processes and with their consent/connivance, or where they did not act diligently.

Tenure

- One term: up to 5 consecutive years.
- Reappointment requires special resolution and disclosure in Board's report.
- Maximum 2 consecutive terms.
- Cooling period: eligible for appointment only after 3 years of ceasing to be independent director; during cooling period, cannot be associated with the company directly or indirectly in any other capacity.
- A term shorter than 5 years is still treated as one term.

13. Selection and data bank of independent directors - Section 150 + Rule 6

- Independent director may be selected from data bank of persons eligible and willing to act as independent directors.
- Data bank is maintained by notified institute/body. The Hemant notes identify IICA as the data bank institute.
- Responsibility of due diligence before selecting an independent director from data bank lies with the company making the appointment.
- Appointment must be approved by company in general meeting and explanatory statement must justify choosing the appointee.
- Existing/prospective independent directors must apply online for inclusion in data bank for 1 year, 5 years, or lifetime and renew within 30 days of expiry unless lifetime fee is paid.
- Independent director must submit declaration of data bank compliance to Board whenever he submits independence declaration.
- Online proficiency self-assessment test must be passed within 2 years from name inclusion, unless exempt based on prescribed experience.
- No minimum passing attempts limit; result requires prescribed score. If not passed, name removed from data bank. Restoration may be possible by paying restoration fee within prescribed time as noted in Hemant notes.

14. Duties of directors - Section 166

Duty	Meaning
Act according to articles	Subject to Companies Act.
Good faith and objects	Promote objects of company for benefit of members as a whole and in best interests of company, employees, shareholders, community and environment.
Care, skill and diligence	Exercise due and reasonable care, skill, diligence and independent judgment.
Avoid conflict	Do not involve in direct/indirect interest conflicting or possibly conflicting with company interest.
No undue gain	Do not achieve undue gain/advantage for self, relatives, partners or associates. If guilty, repay equal amount to company.
No assignment of office	Any assignment of office is void.

- Punishment for contravention of Section 166: fine as prescribed in the Act; undue gain must be paid back to the company.

15. Vacation of office - Section 167

Ground	Effect
Incurs Section 164 disqualification	For Section 164(2), office vacates in all companies except the defaulting company.
Absent from all Board meetings for 12 months	Vacation occurs with or without leave of absence.
Contravention of Section 184	Interest in contracts/arrangements.
Failure to disclose interest	Direct/indirect interest not disclosed.
Court/Tribunal disqualification order	Office vacates, subject to statutory waiting/appeal periods.
Conviction and sentence 6 months or more	Office vacates, subject to statutory waiting/appeal periods.
Removed under Act	For example removal/disqualification provisions.
Ceases to hold office/employment by virtue of which he was appointed	Where directorship was linked to another office/employment in holding/subsidiary/associate company.

- For clauses relating to order/conviction, office does not vacate for 30 days from conviction/order; if appeal filed within 30 days, until 7 days from disposal; if further appeal filed within 7 days, until disposal of further appeal.
- Private company may provide additional grounds for vacation in its articles.
- If a person knowingly functions as director after office has become vacant, he is liable to fine from Rs. 1 lakh to Rs. 5 lakh.

16. Resignation of director - Section 168

- Director may resign by giving notice in writing to the company.

- Board must take note of resignation on receipt and company must intimate Registrar in prescribed manner and place fact in directors' report.
- Director may also forward copy of resignation with detailed reasons to Registrar within 30 days in prescribed manner.
- Effective date: resignation takes effect from date on which notice is received by company OR date specified by director in notice, whichever is later.
- Director remains liable for offences that occurred during his tenure, even after resignation.
- If all directors resign or vacate offices, promoter or Central Government appoints required number of directors who hold office until directors are appointed by company in general meeting.

17. Removal of directors - Section 169

- Company may remove a director before expiry of period of office by ordinary resolution after giving reasonable opportunity of being heard.
- This power is subject to exceptions: it does not apply where director is appointed by Tribunal under Section 242, and proportional representation protections must be respected.
- Special notice is required for resolution to remove a director or appoint someone in place of removed director at the same meeting.
- Company must send copy of special notice to concerned director; director is entitled to make representation and request circulation/reading at meeting, subject to Tribunal's power to restrain abuse.
- Vacancy from removal may be filled at same meeting if special notice of intended appointment was given. The replacement holds office till the date the removed director would have held office.
- If vacancy is not filled at same meeting, it may be filled as casual vacancy, but removed director cannot be reappointed by Board as such casual vacancy appointee.
- Removal does not deprive director of compensation/damages payable under contract/terms, if otherwise legally recoverable.

18. Register of directors and KMP and their shareholding - Section 170

- Every company keeps a register at its registered office containing prescribed particulars of directors and key managerial personnel and details of securities held by them.
- Particulars include DIN, present/former name, parent/spouse details, date of birth, addresses, nationality, occupation, board resolution date, appointment/reappointment date, cessation date/reasons, other offices held/relinquished, CS membership number, PAN for KMP if no DIN, and securities details.
- Securities details include number/description/nominal value, acquisition date and price/consideration, disposal date and consideration, cumulative balance, mode of acquisition, physical/demat mode, pledge/encumbrance.
- Company files Form DIR-12 within 30 days of appointment and within 30 days of any change.
- Section 170 exemption may apply to specified government companies subject to no filing default.

19. Members' right to inspect - Section 171

- Register of directors and KMP is open for inspection during business hours.
- Members may take extracts and copies on request; copies must be provided within 30 days free of cost.
- Register must also be open for inspection at every AGM and accessible to persons attending the meeting.
- If inspection or copy is refused, Registrar may on application order immediate inspection and supply of copies.

20. General punishment - Section 172

- If a company contravenes any provision of Chapter XI (Sections 149 to 171) and no specific penalty/punishment is provided, company and every officer in default are liable to penalty of Rs. 50,000.
- For continuing failure: further penalty of Rs. 500 per day, subject to maximum Rs. 3 lakh for company and Rs. 1 lakh for officer in default.

C. Fast Revision Charts

Topic	Number / Time limit / Threshold
Minimum directors	Public 3; Private 2; OPC 1
Maximum directors	15; more requires special resolution
Woman director threshold	Listed company; other public company with PUSC Rs. 100 crore or turnover Rs. 300 crore
Woman director vacancy	Immediate next Board meeting or 3 months, whichever is later
Resident director	Stay in India at least 182 days in financial year
ID for listed public company	At least 1/3rd of total directors, fraction rounded up

ID for prescribed unlisted public company	At least 2 IDs if PUSC Rs. 10 crore / turnover Rs. 100 crore / loans-debentures-deposits > Rs. 50 crore
ID tenure	Up to 5 years per term; max 2 consecutive terms; 3-year cooling off
DIR-12 filing	Within 30 days of appointment/change
Section 160 notice	At least 14 days before general meeting; deposit Rs. 1 lakh
Small shareholders' director tenure	Max 3 consecutive years; no reappointment; not liable to rotation
Additional director tenure	Next AGM or last date AGM should have been held, whichever earlier
Alternate director	Original director absent from India for not less than 3 months
Proportional representation	At least 2/3rd directors; once every 3 years
Section 164(2) defaults	Non-filing for 3 continuous FYs OR repayment/redemption/dividend default for 1 year or more
Directorship limit	20 companies total; 10 public companies
Resignation effective date	Receipt by company or date specified, whichever is later
Register copies	Within 30 days free of cost
General penalty under Section 172	Rs. 50,000 + Rs. 500/day continuing, with caps

D. Chapter-relevant Case Scenario Booklet Questions with Answers

The Case Scenario Booklet contains multiple corporate law situations. For Chapter 1, the clearly relevant scenarios are Case Scenario 1 and Case Scenario 2 because they directly involve director appointment, independent director criteria, disqualification, and related Board composition issues. Answers below are framed from the provided booklet and Chapter 1 provisions.

Case Scenario 1 - Alfa Numerio Limited

Facts in brief: Alfa Numerio Limited is a listed public company. The Board has 6 directors: promoter CMD Mr. Ramesh Khanna, promoter director Mrs. Rashmi Khanna, nominee director Mr. Dinesh Negi and three professional directors. Mr. Rohan Khanna, son of the promoters, was convicted abroad for drug use and sentenced to 9 months imprisonment; appeal is pending and conviction is stayed. The Board meeting at 3 days notice proposes his appointment as additional director and also approves quarterly results and a related party purchase agreement.

Q	Issue	Answer	Reasoning
1	Can Rohan be appointed as additional director despite stayed conviction?	Option (c) - Illegal even if conviction is on hold pending appeal.	Section 164(1)(d) disqualifies a person convicted and sentenced to imprisonment for at least 6 months until 5 years after expiry of sentence. For specified disqualifications, appeal/petition does not remove appointment disqualification.
2	Is shorter notice Board meeting valid?	Option (b) as per booklet.	A Board meeting may be called at shorter notice for urgent business if at least one independent director, if any, is present; if absent, decisions require circulation and ratification by at least one ID. This point is primarily Chapter 3 but appears in the case.
3	Is related party long-term purchase agreement valid?	Option (c) as per booklet.	Section 188 related party transaction requires Board approval and interested directors must not participate. This point is mainly Chapter 3 but case integrates director-interest concepts.
4	Were quarterly results properly approved?	Option (c) as per booklet.	Approved in Board meeting convened at shorter notice and short notice was approved by directors present; this is mainly Chapter 3/SEBI-related integration.

Chapter 1 retention from Case 1: Additional director appointment cannot be used to bypass Section 164 disqualification. A stayed/pending appeal does not rescue appointment eligibility where the statutory disqualification continues.

Case Scenario 2 - XYZ Ltd. Independent Director Appointment

Facts in brief: XYZ Ltd., a listed company, must appoint an independent director after resignation. Candidates are Anil Saxena (former CFO, no pecuniary relationship), Pooja Reddy (former competitor CEO, significant shares in XYZ), and Deepak Shah (retired law partner, occasional consulting services to XYZ).

Q	Answer	Reasoning
1. Candidate disqualified due to shareholding	Option (b) - Ms. Pooja Reddy	Significant shareholding affects independence criteria.
2. Period free from pecuniary relationship	Option (c) - two immediately preceding financial years or current financial year	Section 149(6) checks pecuniary relationship during these periods.
3. Why Deepak Shah is disqualified	Option (b) - occasional consulting services	Consulting creates pecuniary relationship unless within permitted limits.
4. NOT a criterion	Option (c) - director should	Prior work is not itself a positive independence criterion;

	have previously worked with company	recent employment/relationships may be disqualifying depending facts.
5. Why Anil Saxena suitable	Option (b) - financial expertise and no material pecuniary relationship	Meets expertise and independence requirements.
6. Maximum tenure in one term	Option (b) - 5 years	Section 149(10).
7. Board action required	Option (b) - obtain declaration of independence	Section 149(7).
8. Purpose of independent directors	Option (b) - unbiased oversight and preventing conflicts	Independent directors improve objective governance and minority/stakeholder confidence.

E. Additional Practice - ICAI Chapter 1 Test Your Knowledge Style

These practice answers are aligned to the Chapter 1 uploaded module. The purpose here is exam revision, so the answer key is followed by crisp reasoning.

Multiple Choice Answer Key from Chapter 1 Test Your Knowledge

Question	Likely answer	Core reason
1. Alternate director for four-month Europe tour; original director claims right to appoint friend	Option (b)	Power belongs to Board only if authorised by articles/general meeting; original director has no personal right to choose.
2. Company mandatorily required to appoint woman director	Option (b)	Every listed company must appoint woman director irrespective of turnover threshold.
3. First directors when articles silent and one subscriber is body corporate	Option (b)	Only individual subscribers are deemed first directors.
4. Woman director vacancy on 15 June; immediate Board meeting on 10 Oct	Option (d)	Vacancy filled by immediate next Board meeting or 3 months, whichever later. Later is 10 Oct.
5. Resignation dated 12 June effective from 15 June but received 18 June	Option (d)	Effective date is receipt by company or specified date, whichever later.
6. Directorship count with dormant/Section 8/private subsidiaries of public companies	Apply Section 165	Exclude dormant companies for total count; count private companies that are holding/subsidiary of public companies as public for public-company cap.

Descriptive practice issue-bank and model answers

Issue	Model answer outline
Increase directors from 8 to 16 when articles cap at 10	Maximum directors is 15 unless special resolution permits more. Company must alter articles under Section 14 by special resolution to increase article limit and also pass special resolution under Section 149(1) to appoint more than 15 directors.
Retiring director and deemed reappointment	If vacancy of retiring director is not filled and meeting does not expressly resolve not to fill it, meeting is adjourned. At adjourned meeting, if vacancy still not filled and no resolution not to fill is passed, retiring director is deemed reappointed unless exceptions apply.
Appointment of additional director	A person who failed to get appointed in general meeting cannot be appointed as

rejected earlier by shareholders	additional director. Shareholder rejection cannot be bypassed.
Repeated casual vacancy	Casual vacancy under Section 161(4) arises only when office of director appointed by company in general meeting is vacated. Vacancy caused by death/resignation of a person appointed to fill a casual vacancy is not another Section 161(4) casual vacancy.
Deposit default and appointment in another company	Director of a company that failed to repay deposits and default continues for one year or more is disqualified under Section 164(2) for 5 years from default; cannot be appointed in other company.
Independent directors required for unlisted public company with PUSC Rs. 20 crore and turnover Rs. 150 crore	At least 2 independent directors under Rule 4 because thresholds are crossed.
Independent directors required for listed company with 13 directors	At least 1/3rd of total directors. 13/3 = 4.33, rounded up to 5.
Section 164(2) disqualification and vacation	Director vacates office in all companies except defaulting company. Cannot be reappointed/appointed elsewhere for 5 years.
Alternate director maximum votes/directorships	Alternate directorship counts for Section 165. A person cannot be alternate for more than one director in same company and cannot be director in same company. He votes as one director in that capacity.
Company restricting lesser directorship limit	Members may by special resolution specify a lesser number of companies in which a director of the company may act as director.

F. One-page memory sheet

Mnemonic / Hook	Remember
3-2-1 / 15	Minimum directors: Public 3, Private 2, OPC 1; maximum 15 unless SR.
Woman = Listed OR 100/300	Every listed company; other public company PUSC Rs. 100 crore OR turnover Rs. 300 crore.
Resident = 182	At least one director stayed in India for 182 days in FY.
ID = 1/3 or 2	Listed public company 1/3; prescribed unlisted public company 2.
ID term = 5 + 5 + 3 cooling	Up to 5 years, second term by SR, then 3-year cooling.
DIR-2 before acting; DIR-12 within 30	Consent before acting; company filing within 30 days.
Additional director cannot be rejected person	No back-door entry after shareholder rejection.
Alternate = absent from India 3 months	Board appoints if authorised; original director cannot appoint personally.
Casual vacancy = original GM director only	Board fill + member approval + remaining term only.
164(2) = 3 FY non-filing / 1 year money default	Disqualification for 5 years; vacates all except defaulting company.
165 = 20 / 10	20 total directorships; 10 public company limit.
168 = later date	Resignation effective on receipt or specified date, whichever later.
171 = inspection + 30 days copy	Register inspection and copies free within 30 days.

G. Final exam checklist

- Identify company type: public/private/listed/unlisted/OPC/Section 8/government/dormant/start-up.
- Check whether articles authorise the proposed action: additional director, alternate director, proportional representation, private company extra disqualifications, casual vacancy procedure.
- For appointment: DIN + declaration + consent + DIR-12 + special security clearance if applicable.
- For independent director: eligibility + declaration + data bank + test + tenure + remuneration + liability.
- For disqualification: classify under Section 164(1) or 164(2). Then ask whether appeal changes the result and whether vacation under Section 167 follows.
- For resignation/removal/vacation: note effective date, notice, opportunity of being heard, and whether liability continues.
- For any numeric answer: use latest audited financial statements for thresholds unless provision says otherwise.
- For case law style questions: focus on statutory trigger and consequence, not on fairness or business convenience.

Source coverage note

This document is based only on the uploaded study material. It consolidates: (1) ICAI Chapter 1 - Appointment and Qualifications of Directors; (2) Chapter-relevant questions from the Case Scenario Booklet; (3) relevant quick-points from the Important Points PDF; and (4) the relevant Hemant Somani notes/charts for Chapter 1. It intentionally avoids external updates or online research, as requested.

H. Exhaustive provision-to-fact scenario matrix

This matrix expands the mega case study into many short factual variations. Use it for active recall: read the fact, cover the answer, then identify the section and result.

#	Fact variation	Provision	Answer
1	Articles silent; subscribers include 3 individuals and 2 companies.	Section 152(1) + 149	Only individual subscribers become first directors; companies cannot be directors.
2	Articles name first directors but one named person has no DIN.	Section 152(3)	He cannot be appointed/act until DIN/prescribed number is allotted and other consents are filed.
3	Public company wants 16 directors but articles permit only 12.	Section 149 + Section 14	Alter articles by special resolution and pass special resolution to exceed 15 directors.
4	Company has 15 directors and appoints 16th by ordinary resolution.	Section 149(1)	Invalid/non-compliant because special resolution is required.
5	Unlisted public company has PUSC Rs. 100 crore exactly.	Rule 3 woman director	Threshold met; one woman director required.
6	Unlisted public company has turnover Rs. 299.90 crore and PUSC Rs. 99 crore.	Rule 3	Woman director threshold not met unless listed.
7	Listed company has no woman director and says turnover is low.	Rule 3	Irrelevant; every listed company must have at least one woman director.
8	Woman director resigns on 1 Jan; next Board meeting 20 Feb; 3 months ends 31 Mar.	Rule 3	Fill by 31 Mar because later of next Board meeting and 3 months is 31 Mar.
9	Woman director resigns on 1 Jan; next Board meeting 10 May.	Rule 3	Fill by 10 May because immediate next Board meeting is later than 3 months.
10	Company incorporated on 1 Oct; one director stays in India 91 days by 31 Mar.	Section 149(3)	Check proportionate 182-day requirement for newly incorporated company.
11	Listed public company has 7 directors.	Section 149(4)	At least 3 independent directors because 1/3 of 7 = 2.33 rounded up.
12	Listed public company has 6 directors, one nominee director from bank.	Section 149(4)	Nominee director is not substitute for independent director; need 2 IDs.
13	Unlisted public company PUSC Rs. 9 crore, turnover Rs. 120 crore.	Rule 4 ID	At least 2 IDs because turnover threshold is met.
14	Unlisted public company loans/debentures/deposits aggregate Rs. 50 crore exactly.	Rule 4 ID	Threshold says exceeding Rs. 50 crore; exactly 50 crore does not trigger on that ground.
15	Company is joint venture crossing ID thresholds.	Rule 4 exemption	Rule 4 requirement for 2 IDs does not apply as per exemption in material.
16	ID candidate had consulting fees from company in current FY.	Section 149(6)	Potential pecuniary relationship; disqualified unless within permitted threshold/exceptions.
17	ID candidate is brother of promoter.	Section 149(6)	Relative of promoter/director fails independence criteria.
18	ID receives stock options instead of sitting fee.	Section 149(9)	Not allowed; ID not entitled to stock option.
19	ID appointed for 2 years and again for 2 years.	Section 149(10)/(11)	Each appointment is one term; after two consecutive terms, cooling off applies.
20	ID forgets annual declaration at first Board meeting of FY.	Section 149(7)	Non-compliance with mandatory declaration requirement.
21	Candidate for ID not in data bank before appointment.	Section 150/Rule 6	Should apply for inclusion before appointment if intending to be appointed as ID.
22	ID fails online proficiency test within 2 years and has no exemption.	Rule 6	Name stands removed from data bank; affects eligibility/compliance.
23	Articles authorise Board to appoint additional directors. Candidate was rejected in last AGM.	Section 161(1)	Cannot appoint him as additional director.
24	Additional director appointed after AGM was due but not held.	Section 161(1)	Term ends at next AGM or last date AGM should have been held, whichever earlier; check expiry.
25	Original director abroad for 2 months 20 days.	Section 161(2)	Alternate director condition of absence from India for not less than 3 months is not met.
26	Original director abroad 4 months; articles do not authorise alternate director.	Section 161(2)	Board cannot appoint alternate director unless authorised by articles or GM resolution.
27	Alternate director is already a director in same company.	Section 161(2)	Cannot be appointed as alternate director in same company.
28	Alternate for independent director is not independent.	Section 161(2)	Not valid; alternate for ID must be qualified to be ID.
29	Casual vacancy due to death of director appointed in AGM.	Section 161(4)	Board may fill at Board meeting subject to articles and member approval at immediate next GM.
30	Casual vacancy appointee appointed for full 5 years.	Section 161(4)	Wrong; he holds office only up to original director's remaining term.
31	Company appoints 4 directors by one	Section 162	Single resolution may be valid if proposal for such

	resolution; no one votes against initial proposal.		single resolution was first agreed without any vote against.
32	Private company appoints 3 directors by one resolution.	Section 162 exemption	Section 162 is exempt for private companies as per material.
33	Articles provide cumulative voting for 2/3rd directors.	Section 163	Permitted proportional representation method.
34	Proportional representation appointments made every year.	Section 163	Not proper; such appointments may be made once in every 3 years.
35	Small shareholder holds nominal value Rs. 20,000.	Section 151	Qualifies as small shareholder because not more than Rs. 20,000.
36	Small shareholders' director seeks reappointment after 3-year term.	Section 151 Rules	Not eligible for reappointment after expiry of tenure.
37	Small shareholders' director appointed in 3 companies.	Section 151 Rules	Not allowed; maximum 2 companies and second must not compete/conflict.
38	Director declared unsound mind by competent court.	Section 164(1)	Disqualified for appointment; also triggers vacation under Section 167.
39	Director sentenced to 5 months imprisonment.	Section 164(1)(d)	This clause requires imprisonment not less than 6 months, so this ground alone not triggered.
40	Director sentenced to 7 years imprisonment.	Section 164(1)(d) proviso	Not eligible to be appointed as director in any company.
41	Director convicted of Section 188 RPT offence during last 5 years.	Section 164(1)(g)	Disqualified for appointment.
42	Company did not file FS/annual return for 3 continuous financial years.	Section 164(2)	Its directors face 5-year disqualification for reappointment/appointment elsewhere.
43	Company failed to redeem debentures; default continues 10 months.	Section 164(2)	One-year continuation not yet complete for this ground.
44	New director joins defaulting company.	Section 164(2) proviso	No disqualification for 6 months from appointment.
45	Director holds 20 active companies plus 1 dormant company.	Section 165	Dormant company excluded; check active count.
46	Director holds 10 public companies and accepts alternate directorship in another public company.	Section 165	Alternate directorship counts; public company cap exceeded.
47	Director absent from all meetings for 12 months with leave.	Section 167(1)(b)	Office vacates even with leave.
48	Director fails to disclose interest under Section 184.	Section 167(1)(d)	Office becomes vacant.
49	Resignation letter says effective 1 May, received 15 May.	Section 168	Effective 15 May, later of specified date and receipt.
50	Resignation letter received 1 May, states effective 15 May.	Section 168	Effective 15 May, later date.
51	Shareholders remove director without opportunity of being heard.	Section 169	Removal defective; reasonable opportunity of being heard is required.
52	Removed director is proposed by Board to fill the casual vacancy created by his removal.	Section 169	Not allowed; removed director cannot be reappointed by Board as casual vacancy appointee.
53	Member asks for register copy; company delays beyond 30 days.	Section 171	Non-compliance; Registrar may order immediate inspection/supply.
54	Contravention has no specific penalty under Chapter XI.	Section 172	General penalty applies: Rs. 50,000 plus continuing penalty with caps.

I. Ultra-condensed answer-writing templates

Template 1 - Appointment validity

- Step 1: State the applicable section and type of company/director.
- Step 2: Check eligibility: individual, DIN, declaration, consent, non-disqualification, independence criteria if ID.
- Step 3: Check approving authority: general meeting / Board under articles / special resolution / member approval at immediate next GM.
- Step 4: Check time limit and filing: DIR-12 within 30 days, tenure limits, vacancy filling limits.
- Step 5: Conclude validity and consequence in one sentence.

Template 2 - Disqualification and vacation

- Step 1: Identify whether facts fall under Section 164(1) personal disqualification or Section 164(2) company-default disqualification.

- Step 2: For 164(2), check 3 continuous FY non-filing or one-year payment default.
- Step 3: Apply Section 167: office vacates in all companies, but for 164(2), not in the defaulting company.
- Step 4: Mention 5-year ineligibility wherever applicable and 6-month window for new director in defaulting company.

Template 3 - Independent director

- Step 1: Is company covered? Listed public = 1/3rd; prescribed unlisted public = at least 2 IDs.
- Step 2: Is candidate independent under Section 149(6)? Check promoter relation, pecuniary relationship, relative thresholds, KMP/employment/professional connections, shareholding, guarantees and NGO links.
- Step 3: Has declaration under Section 149(7) been given? Has Schedule IV compliance been considered?
- Step 4: Has data bank under Section 150/Rule 6 been complied with?
- Step 5: Check term and remuneration: 5-year term, special resolution for reappointment, no stock options.

J. Common examiner traps

- Do not treat nominee director as independent director.
- Do not forget fraction rounding for listed public company independent directors.
- Do not count dormant company for the 20-company directorship limit.
- Do count private companies that are holding/subsidiary of public companies for the 10 public company cap.
- Do not say appeal automatically removes Section 164(1) appointment disqualification for conviction/order/RPT conviction cases.
- Do not allow additional director appointment of a person rejected in general meeting.
- Do not make resignation effective before company receives the notice if receipt date is later.
- Do not give full fresh term to casual vacancy appointee; he gets only the remaining term of original director.
- Do not miss member approval at immediate next general meeting for casual vacancy appointment.
- Do not allow small shareholders' director reappointment after 3-year tenure.
- Do not appoint alternate director for absence from India of less than 3 months.
- Do not forget reasonable opportunity of being heard in removal of director.
- Do not forget that Section 172 applies only where no specific penalty/punishment is provided in Chapter XI.

Chapter 2 - Appointment and Remuneration of Managerial Personnel

Comprehensive exam-oriented notes with mega case study, what-if triggers, MCQs and answers

Source discipline: This document is prepared only from the uploaded study material: ICAI Chapter 2 module, Case Scenario Booklet, SPOM Set A All Important Points PDF, and Hemant Somani SPOM Law notes. No outside source has been used.

How to use this document

- First read the mega integrated case study. It converts the entire chapter into one story so that every legal trigger becomes memorable.
- Then revise the trigger map and section-wise notes. Focus on section numbers, limits, approvals, forms, time limits and consequences.
- Finally solve the relevant case-booklet and test-your-knowledge questions. Answers are placed below the question-gist to make revision fast.
- In every exam case, identify: company type, person type, appointment/remuneration event, profit status, approval required, filing required, and penalty/consequence.

Core mental model: Chapter 2 is not just about salary. It has 6 linked zones: definitions, appointment of MD/WTD/Manager, KMP appointment, remuneration limits, compensation for loss of office, and secretarial audit/company secretary functions.

A. Mega Integrated Case Study - The Management Contract of Phoenix Mobility Limited

Facts

Phoenix Mobility Limited (PML) is a public company manufacturing electric two-wheelers. It is not a Government company. Its paid-up share capital is Rs. 75 crore, turnover is Rs. 320 crore, and outstanding bank borrowings are Rs. 112 crore as per the latest audited financial statements. It has profits in Year 1, inadequate profits in Year 2, and no profits in Year 3. The Board consists of executive and non-executive directors. The following events occur over three financial years:

- PML designates Ms. Kavya as Chief Executive Officer and appoints Mr. Raghav as Managing Director. It also wants to appoint Mr. Neeraj as Manager simultaneously.
- Mr. Raghav is appointed as MD for 7 years because the promoters want continuity.
- Mr. Raghav is 72 years old. The ordinary resolution receives more votes in favour than against, but the special resolution fails.
- Mr. Raghav is already MD of another public company. In PML Board meeting, 8 directors are present, 7 vote in favour and 1 abstains.
- The Board approves MD appointment on 20 May. The general meeting on 30 June does not approve it. Meanwhile, the MD signs a critical dealership agreement on 10 June.
- PML appoints a full-time CFO, full-time Company Secretary and a Whole-time Director. The same person is proposed to act as Chairperson and MD.
- The CFO of PML is offered the post of WTD in PML Subsidiary Private Limited, in which PML holds 60 percent share capital.
- A casual vacancy arises in the office of Company Secretary.
- Year 1: PML has net profits. It proposes 5 percent commission to its only MD, 2 percent to non-executive directors, sitting fee of Rs. 1.10 lakh per meeting, and professional fees to a director who is a qualified software engineer.
- Year 2: PML has inadequate profits. Effective capital needs to be computed. The Board fixes managerial remuneration without checking Schedule V ceilings.
- Year 3: PML restates financial statements due to non-fraud error, and excess remuneration paid to the retired MD is discovered.
- PML pays insurance premium to indemnify directors. Later one director is found guilty.
- The Board terminates the MD with 25 months of term remaining and allegations of questionable transactions. The company wants to avoid paying compensation and recover an ad hoc payment already made.
- PML has paid-up share capital below Rs. 50 crore but turnover above Rs. 250 crore and loans above Rs. 100 crore. It never obtained secretarial audit.
- The Company Secretary says that because he handles compliance, the Board and MD are not responsible for non-compliance.

Trigger map from the mega case

Case trigger	Provision	Answer / consequence
MD and Manager together	Section 196(1)	A company cannot appoint/employ both MD and Manager at the same time. It may have MD and WTD together.
MD term for 7 years	Section 196(2)	Invalid beyond 5 years at a time. Reappointment cannot be made earlier than 1 year before expiry.
Age 72	Section 196(3)	Person above 70 may be appointed by special resolution with justification. If SR fails but votes for exceed votes against, Central Government approval can regularise.
Already MD/Manager of another company	Section 203(3) proviso	Can be MD/Manager in one other company only if Board resolution is passed with consent of all directors present and specific notice is given to all directors then in India.
One abstaining director	Section 203(3)	Not unanimous consent of all directors present; appointment in second company fails.
General meeting refuses approval after Board appointment	Section 196(5)	Acts done before non-approval remain valid, subject to the Act.
Same person as Chairperson and MD/CEO	Section 203(1) proviso	Generally not allowed unless Articles provide otherwise or company does not carry multiple businesses. Exception for prescribed class with multiple CEOs.
CFO offered WTD in subsidiary	Section 203(3)	Whole-time KMP can hold office in subsidiary. Otherwise whole-time KMP cannot hold office in more than one company except directorship with Board permission.
KMP vacancy	Section 203(4)	Board must fill vacancy at Board meeting within 6 months.
Profits year: overall remuneration	Section 197(1)	Overall limit 11 percent of net profits; one MD/WTD/Manager 5 percent; more than one 10 percent; non-executive directors 1 percent if MD/WTD/Manager exists, otherwise 3 percent.
Sitting fee Rs. 1.10 lakh	Section 197(5) + Rule 4	Cannot exceed Rs. 1 lakh per meeting. Sitting fees are outside percentage limits.
Professional fee to director	Section 197(4)	Excluded from managerial remuneration only if services are professional and NRC/Board opines that director has requisite qualification.
No/inadequate profits	Section 197 + Schedule V	Remuneration allowed based on effective capital and conditions of Schedule V; special resolution may double the limit.
Excess remuneration on restatement	Section 199 / 197(9)	Excess remuneration can be recovered even from past MD/WTD/Manager/CEO who received it during the relevant period.
Waiver of recovery	Section 197(10)	Company cannot waive recovery unless special resolution is passed within 2 years from date amount becomes refundable; creditor approval first if company has defaulted.
Insurance premium	Section 197(13)	Not remuneration if director not guilty; if found guilty, premium is treated as part of remuneration.
Compensation for loss of office	Section 202	Only MD/WTD/Manager eligible. Cap is lower of remuneration for unexpired term or 3 years based on average remuneration. No compensation in specified disqualifying cases.
Secretarial audit thresholds	Section 204 + Rule 9	Applies to listed companies, public companies with paid-up share capital Rs. 50 crore or more, public companies with turnover Rs. 250 crore or more, and every company with bank/PFI borrowings Rs. 100 crore or more.
CS functions vs Board responsibility	Section 205(2)	CS functions and secretarial audit do not reduce duties of Board, Chairperson, MD or WTD.

What-if scenario matrix

What if...	Provision-wise answer
What if PML were a private company?	Section 197 remuneration limits are not applicable to private company. Section 196(4) and (5) procedure is exempt for eligible private companies with no filing default, but the 5-year tenure in Section 196(2) still applies unless exempted otherwise.
What if PML were a Government company?	Section 196(2), (4), (5) do not apply to eligible Government companies. Section 203 requirements for MD/CEO/Manager/WTD are also exempt as specified, subject to filing compliance.
What if PML has both MD and WTD?	Allowed. Prohibition is MD + Manager at the same time, not MD + WTD.
What if an MD is appointed for life through articles?	Not valid. Section 196(2) caps appointment/reappointment at 5 years at a time.
What if reappointment is made 18 months before expiry?	Invalid. Reappointment cannot be made earlier than 1 year before expiry.
What if the 72-year-old candidate gets special resolution?	Valid, if justification is in explanatory statement and other conditions are satisfied.
What if special resolution fails but ordinary majority supports?	Central Government approval can validate if CG is satisfied that the appointment is most beneficial to the company.
What if a managerial person is non-resident?	Schedule V requires resident of India for appointment without CG approval, subject to SEZ exception and employment visa requirements.
What if a person has been detained under COFEPOSA?	Part I of Schedule V is not satisfied. CG approval is required for appointment without Schedule V compliance.
What if remuneration exceeds 11 percent but company has profits?	General meeting can authorise exceeding overall 11 percent subject to Schedule V.
What if non-executive directors get 2 percent when company has an MD?	Needs special resolution because ordinary limit for directors other than MD/WTD is 1 percent if the company has MD/WTD/Manager.
What if there is no MD/WTD/Manager?	Non-executive director remuneration limit is 3 percent of net profits.
What if sitting fee is paid to independent director lower than other directors?	Not allowed. Sitting fees to independent directors and women directors cannot be less than that payable to other directors.
What if excess remuneration is received and company wants to waive it?	Waiver needs special resolution within 2 years from refundability, and prior approval of bank/PFI/NCD holders/secured creditors if the company has defaulted in dues.
What if a director is found guilty under indemnity insurance?	Insurance premium paid becomes part of remuneration.
What if MD is terminated due to mere allegation?	Mere allegation is not enough to deny compensation. No compensation only if statutory disqualification/guilt conditions are satisfied.
What if the CS performs all compliance?	Board and MD/WTD remain responsible. Section 205 does not dilute duties of these functionaries.

B. Section-wise Comprehensive Notes

1. Key definitions and conceptual base

Term	Meaning / exam point
CEO - Section 2(18)	Officer designated as Chief Executive Officer by the company.
CFO - Section 2(19)	Person appointed as Chief Financial Officer of the company.
Company Secretary - Section 2(24)	Company secretary as defined in CS Act, appointed to perform functions of company secretary under the Companies Act.
Company Secretary in practice - Section 2(25)	Company secretary deemed to be in practice under the CS Act.
KMP - Section 2(51)	CEO/MD/Manager, Company Secretary, Whole-time Director, CFO, one-level-below director in whole-time employment designated by Board, and other prescribed officer.
Manager - Section 2(53)	Individual having management of whole or substantially whole affairs, under superintendence, control and direction of Board. Cannot coexist with MD in same company.
Managing Director - Section 2(54)	Director entrusted with substantial powers of management by articles, agreement, general meeting resolution, or Board resolution. Routine administrative acts are not substantial powers.
Whole-time Director - Section 2(94)	Director in whole-time employment of the company.
Remuneration - Section 2(78)	Money or equivalent given for services rendered, including perquisites under Income-tax Act.

Routine administrative acts that do NOT make a person MD

- Affixing common seal to a document when authorised by Board.
- Drawing and endorsing cheques on company bank account.
- Drawing and endorsing negotiable instruments.
- Signing share certificates.
- Directing registration of transfer of shares.

Trap: The MD must first be a director. If he ceases to be director, he ceases to be MD. Substantial powers must be management powers, not mere routine signing powers.

2. Appointment of MD, WTD or Manager - Section 196

Appointment and simultaneous offices

- Company may appoint MD, WTD or Manager.
- Company cannot appoint/employ both MD and Manager at the same time.
- MD and WTD can coexist.
- Manager must be an individual. WTD must be a director and whole-time employee. MD must be director with substantial management powers.

Tenure

Rule	Answer
Maximum term	Not exceeding 5 years at a time.
Reappointment	Cannot be made earlier than 1 year before expiry of current term.
Lifetime appointment	Invalid, even if articles provide for it.
Government company exemption	Section 196(2), (4), (5) not applicable to eligible Government company with no filing default.

Eligibility under Section 196(3)

Condition	Result
Director disqualification	Person must not be disqualified under Section 164.
Age below 21	Cannot be appointed/continued.
Age 70 or above	Cannot be appointed/continued unless special resolution is passed; if SR fails but votes in favour exceed votes against, CG approval may be obtained.
Undischarged insolvent/adjudged insolvent	Cannot be appointed/continued.
Suspended payment to creditors or composition with creditors	Cannot be appointed/continued.
Conviction and sentence more than 6 months	Cannot be appointed/continued.

Schedule V Part I additional conditions for appointment without CG approval

Condition	Exam note
Specified Acts conviction/fine	Must not have been sentenced to imprisonment for any period or fine exceeding Rs. 1,000 under specified 19 Acts, unless CG approval exists.
COFEPOSA detention	Must not have been detained under COFEPOSA, unless CG approval exists.
Age	Completed 21 years and not attained 70 years; if 70 or above, special resolution removes need for further CG approval.
Resident of India	Staying in India continuously for at least 12 months immediately preceding appointment and came to India for employment/business/vacation. SEZ exception applies.
Non-resident entry	Non-resident must enter India only after proper employment visa; profile of company, principal employer, and terms of appointment accompany visa application.

Procedure under Section 196(4)

Step	Requirement
Board approval	Appointment, terms and remuneration of MD/WTD/Manager must be approved by Board at a meeting.
Shareholder approval	Approval by resolution at next general meeting.
CG approval	Required where appointment varies from Part I of Schedule V; application in Form MR-2 within 90 days of appointment.
Notice contents	Notice for Board/general meeting must include terms and conditions, remuneration payable, and directors interest, if any.
Return	Form MR-1 to Registrar within 60 days of appointment.
Non-approval by general meeting	Acts done before such non-approval remain valid, subject to the Act.
Private company exemption	Section 196(4) and (5) not applicable to eligible private company with no filing default.

3. Appointment of Key Managerial Personnel - Section 203

Which companies must have whole-time KMP

Company	KMP requirement
Every listed company	Must appoint whole-time KMP: MD/CEO/Manager and in their absence WTD; CS; CFO.
Every other public company with paid-up share capital Rs. 10 crore or more	Must appoint whole-time KMP.
Every private company with paid-up share capital Rs. 10 crore or more	Must appoint whole-time Company Secretary.
Government company	Exemption applies for MD/CEO/Manager and in their absence WTD, subject to filing compliance.

Chairperson and MD/CEO separation

- An individual shall not be appointed/reappointed as Chairperson and MD/CEO of the company at the same time unless Articles provide otherwise or the company does not carry multiple businesses.
- The restriction does not apply to a company engaged in multiple businesses and having appointed one or more Chief Executive Officers for each such business, as may be notified.

Whole-time KMP holding office elsewhere

- Whole-time KMP shall not hold office in more than one company at the same time, except in its subsidiary company.
- Whole-time KMP can be director of any company with permission of the Board.
- A person can be MD of one company and MD/Manager of not more than one other company if the Board approves with consent of all directors present and specific notice of the meeting and resolution is given to all directors then in India.
- Vacancy in office of whole-time KMP must be filled by Board at a Board meeting within 6 months from vacancy.
- Penalty: company Rs. 5 lakh; defaulting director/KMP Rs. 50,000 plus Rs. 1,000 per day for continuing default, subject to cap of Rs. 5 lakh.

4. Managerial remuneration - Section 197 read with Schedule V

Applicability: Section 197 remuneration provisions apply to public companies. Important Points PDF highlights that these remuneration provisions are not applicable to private companies and Government companies in the stated context.

Overall limits when company has profits

Category	Normal limit	Exceeding limit
Overall remuneration to directors including MD/WTD/Manager	11 percent of net profits for the financial year	Can be exceeded if company in general meeting authorises, subject to Schedule V.
One MD/WTD/Manager	5 percent of net profits	Can be exceeded by special resolution in general meeting.
More than one MD/WTD/Manager	10 percent of net profits taken together	Can be exceeded by special resolution in general meeting.
Directors other than MD/WTD where company has MD/WTD/Manager	1 percent of net profits	Can be exceeded by special resolution.
Directors other than MD/WTD where company has no MD/WTD/Manager	3 percent of net profits	Can be exceeded by special resolution.

Net profits - Section 198 snapshot

Add back / credit	Deduct / exclude
Credit for bounties/subsidies received from government or public authority unless otherwise directed.	Premium on shares/debentures issued or sold by company is not credited.
Add usual business credits and gains as permitted.	Profit on sale of forfeited shares is not credited.
Add back directors remuneration while computing net profit for percentage limit.	Profit of capital nature including profit on sale of undertaking/property or fixed assets is generally excluded, subject to balancing rules.
Add back excess depreciation over Companies Act depreciation where applicable in computation questions.	Unrealised gains, notional gains, revaluation of assets, and fair value changes are not credited.
Add compensation/damages if already deducted and not allowed.	Income tax and super tax payable by company are not deducted.

Add capital losses except permissible losses as applicable in module logic.	Capital losses, voluntary compensation/damages and specified expenses are treated as per Section 198 adjustments.

Determination of remuneration - Section 197(4)

- Remuneration of directors including MD/WTD/Manager is determined by articles, by resolution, or by special resolution if articles require.
- Remuneration for services in any other capacity is included in director remuneration unless services are professional and NRC/Board opines director has requisite professional qualification.
- Board alone cannot freely fix remuneration unless articles/resolution framework and statutory limits are complied with.

Sitting fees - Section 197(5) + Rule 4

- Director may receive sitting fee for attending Board/committee meetings or any other purpose decided by Board.
- Maximum sitting fee: Rs. 1 lakh per meeting.
- Sitting fee payable to independent directors and women directors shall not be less than that payable to other directors.
- Sitting fees are excluded from the percentage limits in Section 197(1).

Mode of remuneration - Section 197(6)

- Monthly payment.
- Specified percentage of net profits.
- Partly monthly and partly percentage of net profits.

Excess remuneration and waiver - Section 197(9) and (10)

Point	Rule
Excess payment	Director must refund to company within 2 years or lesser period allowed by company.
Trust concept	Until refunded, he holds the excess amount in trust for company.
Waiver	Company cannot waive recovery except by special resolution passed within 2 years from date sum becomes refundable.
Creditor default	If company defaulted in dues to bank/PFI/NCD holders/secured creditor, prior approval of such creditor is required before waiver approval.

Listed company disclosure - Section 197(12) and Rule 5

- Listed company must disclose in Board report the ratio of remuneration of each director to median employee remuneration and other prescribed details.
- Disclosures include elements of remuneration package, fixed/performance components, service contracts, notice period, severance fee and stock option details where relevant.

Indemnity insurance - Section 197(13)

- Premium paid for insurance to indemnify directors/KMP against liability is not treated as remuneration if the person is not proved guilty.
- If proved guilty, premium paid is treated as part of remuneration.

5. No/inadequate profits - Schedule V and Section 200

Effective capital formula

Effective Capital = Paid-up share capital (excluding share application money/advances against shares) + Share premium + Reserves and surplus excluding revaluation reserve + Long-term loans and deposits repayable after 1 year - Investments - Accumulated losses - Preliminary expenses not written off.

Effective capital	Limit per managerial person	Limit per other director
Negative or less than Rs. 5 crore	Managerial person: Rs. 60 lakh	Other director: Rs. 12 lakh
Rs. 5 crore or more but less than Rs. 100 crore	Managerial person: Rs. 84 lakh	Other director: Rs. 17 lakh
Rs. 100 crore or more but less than Rs. 250 crore	Managerial person: Rs. 120 lakh	Other director: Rs. 24 lakh
Rs. 250 crore or more	Rs. 120 lakh + 0.01 percent of effective capital in excess of Rs. 250 crore	Rs. 24 lakh + 0.01 percent of effective capital in excess of Rs. 250 crore

- The above yearly limits may be doubled if shareholders pass special resolution, as per Schedule V conditions.
- Remuneration under Schedule V generally requires Board/NRC recommendation, shareholder resolution for maximum 3 years, and detailed statement to shareholders.
- Section 200 requires company, while approving appointment/remuneration in no/inadequate profit cases, to consider financial position, remuneration drawn in other capacities/companies, qualifications, experience, and prescribed matters such as performance and proportionality.

Perquisites excluded from ceiling

- Gratuity payable at a rate not exceeding half month salary for each completed year of service.

- Encashment of leave at end of tenure.
- Contribution to provident fund, superannuation fund or annuity fund to the extent not taxable under Income-tax Act.
- For expatriate managerial person: children education allowance and holiday passage/leave travel concessions within specified conditions.

6. Recovery of remuneration in certain cases - Section 199

- If company is required to restate financial statements due to fraud or non-compliance, it shall recover from past or present MD/WTD/Manager/CEO the remuneration including stock option received in excess of what would have been payable under restated financial statements.
- Recovery applies to remuneration received during the period for which restatement is required.
- The person may already be retired; recovery can still apply.

7. Compensation for loss of office - Section 202

Point	Rule
Eligible persons	Only Managing Director, Whole-time Director or Manager.
Maximum amount	Lower of remuneration for unexpired term or 3 years, calculated on average remuneration actually earned during 3 years immediately preceding cessation or shorter period if office held for less than 3 years.
Not payable if office vacated under Section 167(1)	Example: absence from all Board meetings for 12 months.
Not payable if winding up due to negligence/default	No compensation where winding up is due to negligence/default of director.
Not payable for fraud/breach of trust/gross negligence/mismanagement	If found guilty of fraud/breach of trust/gross negligence in conduct of company affairs.
Not payable in reconstruction/amalgamation continuation cases	Where office loss occurs due to reconstruction/amalgamation and person is appointed in resulting company as MD/WTD/Manager or other officer.
Ad hoc payment issue	Mere subsequent discovery of misconduct may not always allow recovery of ad hoc payment; apply given case reasoning carefully.

8. Appointment and remuneration interplay

Situation	Best exam approach
Appointment valid but shareholder approval pending	Mention Board approval, next GM approval and Section 196(5) validity of acts until non-approval.
Age limit issue	State age rule first, then SR exception, then CG approval if SR not passed but majority in favour.
Existing MD in another company	Check one-other-company cap, unanimous consent of all directors present, and specific notice.
No/inadequate profits	Compute effective capital, identify slab, check OR/SR and Schedule V statement.
Excess remuneration	Mention refund/trust, waiver by SR within 2 years, creditor approval if default.
Compensation for loss of office	Check eligible person, cap, and disqualification events before computing.

9. Secretarial audit - Section 204

Trigger / item	Rule
Listed company	Secretarial audit mandatory.
Public company with paid-up share capital Rs. 50 crore or more	Secretarial audit mandatory.
Public company with turnover Rs. 250 crore or more	Secretarial audit mandatory.
Every company with outstanding loans/borrowings from banks or PFIs Rs. 100 crore or more	Secretarial audit mandatory.
Threshold date	Paid-up share capital, turnover or loans/borrowings as on last date of latest audited financial statement.
Report issuer	Company Secretary in practice.
Form	Form MR-3.
Annexure	Secretarial audit report is annexed with Board report under Section 134(3).
Company duty	Provide assistance/facilities to CS in practice.
Board duty	Explain in full any qualification/observation/remarks in Board report.
Penalty	Company/officer/CS in practice in default liable to penalty of Rs. 2 lakh.

10. Functions of Company Secretary - Section 205

- Report to Board about compliance with Companies Act, rules and other applicable laws.
- Ensure company complies with applicable Secretarial Standards.
- Guide directors about duties, responsibilities and powers.
- Facilitate convening of meetings, attend Board/general/committee meetings and maintain minutes.
- Obtain approvals from Board, general meeting, Government and other authorities as required.
- Represent before regulators/authorities in connection with discharge of duties.
- Assist Board in conduct of company affairs.
- Assist and advise Board in ensuring good corporate governance and complying with governance requirements.

- Perform other prescribed duties or duties assigned by Board.

Important: Section 205 functions of CS and Section 204 secretarial audit do not reduce duties and functions of Board, Chairperson, MD or WTD.

C. Memory Charts and Quick Revision

1. Forms, limits and time limits

Item	Provision / form	Limit / time
MR-1	Return of appointment of MD/WTD/Manager	File with ROC within 60 days of appointment.
MR-2	CG approval where appointment varies from Schedule V Part I	Apply within 90 days of appointment.
MR-3	Secretarial Audit Report	Given by CS in practice and annexed to Board report.
KMP vacancy	Section 203(4)	Fill by Board at Board meeting within 6 months.
MD/WTD/Manager tenure	Section 196(2)	Max 5 years at a time; reappointment not earlier than 1 year before expiry.
Sitting fee	Rule 4	Max Rs. 1 lakh per meeting.
Excess remuneration waiver	Section 197(10)	Special resolution within 2 years from refundability.
Secretarial audit loans threshold	Rule 9	Outstanding loans/borrowings from banks/PFIs Rs. 100 crore or more.

2. Approval matrix

Action	Approval
Appointment of MD/WTD/Manager within Schedule V	Board meeting + shareholders at next general meeting.
Appointment at variance with Schedule V Part I	Central Government approval in addition to company approvals.
Age 70 or above	Special resolution with justification. If SR fails but votes for exceed votes against, CG approval possible.
Exceed one MD/WTD/Manager 5 percent or aggregate 10 percent	Special resolution.
Exceed non-executive 1 percent/3 percent	Special resolution.
Exceed overall 11 percent	General meeting authorisation subject to Schedule V.
Waive excess remuneration recovery	Special resolution within 2 years; creditor approval first if default exists.
Appointment of KMP	Board resolution at Board meeting.

3. Examiner traps

Trap	Correct answer
MD vs Manager	Both cannot coexist. MD + WTD can coexist.
Routine power vs substantial power	Cheque signing, common seal, negotiable instruments, share certificates and transfer registration are routine.
Age 70	Not absolute bar; SR or CG route may save appointment.
Reappointment timing	Do not confuse with cooling-off. It is simply not earlier than 1 year before expiry.
KMP in subsidiary	Whole-time KMP can hold office in subsidiary. Otherwise not more than one company, except directorship with Board permission.
Unanimous consent for second MD/Manager post	Consent of all directors present, not merely majority.
Private company	Remuneration limits of Section 197 not applicable; but check Section 196 exemptions carefully.
Sitting fee	Outside percentage limits but capped at Rs. 1 lakh per meeting.
Professional fee to director	Excluded only with professional nature + requisite qualification opinion.
Secretarial audit	Loans threshold applies to every company, not just public company.

D. Practice Questions from Uploaded Material with Answers

1. ICAI Chapter 2 Test Your Knowledge - MCQs

Q.No.	Question gist	Answer	Reason
1	Restatement of financial statements; retired MD received excess remuneration of Rs. 5,00,000.	Option (b)	Recoverable irrespective of retirement. Section 199 recovery can apply to excess remuneration paid during the relevant period.
2	MD refuses administrative functions; identify function he can undertake from listed routine powers.	Option (b)	Signing financial statements is not in the routine administrative list in Explanation to Section 2(54); routine powers include cheque/bill endorsements etc. as authorised.
3	Appointment of 72-year-old as MD.	Option (c)	Valid if shareholders pass special resolution in general meeting.
4	Manager appointed 20 June 2019 for 5 years; earliest valid reappointment date.	Option (a)	Reappointment cannot be earlier than 1 year before expiry; 24 June 2023 is within one year from expiry.
5	Company has both WTD and MD; max remuneration for MD/WTD/Manager category.	Option (c)	More than one MD/WTD/Manager: total limit 10 percent of net profits.
6	CFO of listed holding company offered WTD in subsidiary.	Option (c)	Whole-time KMP may hold office in subsidiary company.
7	WTD reappointed in 2021 for term starting after first term expires in 2024.	Option (b)	Invalid because reappointment cannot be made earlier than 1 year before expiry.

2. ICAI Chapter 2 Test Your Knowledge - Descriptive Questions

Question	Answer approach
Super Specialities Ltd.: 4 percent commission to directors and Rs. 40,000 p.m. to WTD in loss, effective capital Rs. 95 lakhs.	Directors other than MD/WTD/Manager have 1 percent limit if company has MD/WTD/Manager; 3 percent if no MD/WTD/Manager. WTD remuneration in no/inadequate profit is tested with Schedule V effective capital slab.
MJV Ltd.: MD paid Rs. 50 lakh in loss year; effective capital Rs. 150 crore.	Effective capital Rs. 100 crore or more but less than Rs. 250 crore gives managerial person limit Rs. 120 lakh; Rs. 50 lakh is within Schedule V limit and valid subject to conditions.
Carefree Industries: MD terminated with 25 months remaining, salary Rs. 12 lakh p.a.; allegations and Rs. 5 lakh ad hoc payment.	Compensation = lower of unexpired term remuneration or 3 years. 25 months at Rs. 12 lakh p.a. = Rs. 25 lakh. Mere allegations do not deny compensation; ad hoc payment recovery depends on facts and case principle.
International Technologies: 5 percent to MD; 2 percent to other directors; professional fee to director/software engineer.	5 percent to only MD is within limit. Other directors normally limited to 1 percent because MD exists; 2 percent needs special resolution. Professional service fee excluded if professional nature and NRC/Board qualification opinion exists.
Surya Cement: compute overall managerial remuneration under Section 197/198.	Use Section 198 net profit computation and apply 11 percent overall cap. Add/deduct specified items carefully.
Tribhuke Ltd.: compute effective capital and total remuneration for three managerial persons.	Effective capital = Rs. 5.29 crore; slab Rs. 5 crore to less than Rs. 100 crore gives Rs. 84 lakh per managerial person; for 3 persons total Rs. 252 lakh.

3. Case Scenario Booklet - relevant Chapter 2 questions

The Case Scenario Booklet contains mixed-chapter case studies. The following are the Chapter 2 relevant questions extracted and organised by concept.

Source scenario	Question tested	Answer	Reason
Case Scenario 6 - SpeedWheels group	CBPL/PISCO mandatory KMP appointment.	Option (b) - Whole-time Company Secretary	Listed/public company threshold and private company paid-up capital threshold make CS relevant across both; full KMP package applies to listed/public threshold company as applicable.
Case Scenario 6 - SpeedWheels group	Pranav to be appointed MD for 10 years.	Option (a) - term not exceeding 5 years at a time	Section 196(2) caps MD/WTD/Manager appointment or reappointment at 5 years at a time.
Case Scenario 56 - Chai Garden Limited	Waiver of recovery of excess remuneration from Raman.	Option (d) - special resolution	Section 197(10) requires special resolution for waiver of recovery.
Case Scenario 56 - Chai Garden Limited	Maximum time limit for waiver resolution.	Option (a) - within 2 years from date sum becomes refundable	Special resolution must be passed within 2 years from date the sum becomes refundable.
Case Scenario 61 - Ayurveda Limited	Substantial powers of management; which act is routine under Section 2(54).	Option (d) - affix common seal to documents	Routine administrative acts do not constitute substantial powers of management.
Case Scenario 61 - Ayurveda Limited	Compensation for loss of office to WTD/director.	Option (b)	Section 202 applies only to MD/WTD/Manager and compensation is not payable where office is vacated under Section 167(1); non-MD/WTD/Manager not eligible.
Case Scenario 61 - Ayurveda Limited	Applicability of Section 203 and Section 204.	Option (d)	Section 203 CS threshold: public company paid-up share capital Rs. 10 crore or more; Section 204: every company with bank/PFI loans Rs. 100 crore or more.
Case Scenario 61 - Ayurveda Limited	Calculate maximum managerial remuneration.	Option (c) - Rs. 5,64,300	Net profits for remuneration computation are adjusted, then 11 percent cap is applied.

4. Additional practice caselets created from the same material

Mini case	Answer
A company appoints a Manager while an MD already holds office.	Invalid. Section 196(1) prohibits MD and Manager simultaneously.
A Board appoints a 73-year-old MD without special resolution; ordinary votes in favour exceed against.	Appointment can be made only if Central Government approves on application by Board and is satisfied it is most beneficial to company.
A WTD is appointed for 5 years on 1 April 2024 and reappointed on 1 January 2027 for next term.	Invalid. Reappointment is earlier than one year before expiry.
A director-surgeon is paid surgery fee separately.	Allowed outside managerial remuneration if services are professional and NRC/Board opines requisite qualification.
A listed company pays Rs. 70,000 sitting fee to ordinary directors and Rs. 50,000 to independent director.	Not allowed; ID/woman director sitting fee cannot be less than that payable to other directors.
A company with no profits and effective capital Rs. 80 crore pays one managerial person Rs. 90 lakh without special resolution.	Not within normal Rs. 84 lakh slab; special resolution route may permit higher limit subject to Schedule V conditions.
A public company has turnover Rs. 260 crore but paid-up share capital Rs. 30 crore.	Secretarial audit mandatory because turnover threshold Rs. 250 crore or more is crossed.
A private company has paid-up capital Rs. 12 crore.	Whole-time Company Secretary is mandatory under Rule 8A.
A whole-time KMP wants to be director in another company.	Permitted with Board permission; but not whole-time KMP office in another company except subsidiary.
A company restates accounts due to non-fraud error and discovers excess remuneration to past CEO.	Recovery can be made under Section 199 even without fraud.

E. One-page Last Day Revision

- MD = Director + substantial powers. Routine powers do not count.
- MD + Manager together = No. MD + WTD together = Yes.

- MD/WTD/Manager term = max 5 years; reappointment not earlier than 1 year before expiry.
- Age 70+ = special resolution, or CG approval if SR fails but majority supports.
- Appointment under Section 196(4) = Board meeting + shareholders at next GM + MR-1 within 60 days; MR-2 within 90 days if CG approval required.
- Whole-time KMP required for listed companies and public companies with paid-up share capital Rs. 10 crore or more; private company with paid-up capital Rs. 10 crore or more must have whole-time CS.
- Whole-time KMP can hold office in subsidiary. Second MD/Manager office needs unanimous consent of all directors present + specific notice.
- Profit year limits: 11 percent overall, 5 percent one MD/WTD/Manager, 10 percent all MD/WTD/Manager, 1 percent/3 percent non-executive directors.
- Sitting fee cap = Rs. 1 lakh per meeting; ID/woman director not less than other directors.
- No/inadequate profits = Schedule V effective capital slab. Remember Rs. 60L, Rs. 84L, Rs. 120L, and Rs. 120L + 0.01 percent beyond Rs. 250 crore for managerial person.
- Excess remuneration = refund within 2 years; waiver only by SR within 2 years and creditor approval first if default.
- Compensation for loss of office = only MD/WTD/Manager; lower of unexpired term remuneration or 3 years average remuneration; no compensation in prohibited cases.
- Secretarial audit = listed + public PUSC Rs. 50 crore + public turnover Rs. 250 crore + every company bank/PFI borrowings Rs. 100 crore.
- CS duties do not dilute duties of Board, Chairperson, MD or WTD.

F. Suggested Answer-Writing Templates

1. Appointment of MD/WTD/Manager

As per Section 196 of the Companies Act, 2013, a company may appoint a Managing Director, Whole-time Director or Manager, but it cannot appoint both a Managing Director and a Manager at the same time. The appointment cannot exceed five years at a time and reappointment cannot be made earlier than one year before expiry of the term. The person must satisfy age, solvency, creditor-payment, conviction and Schedule V conditions. The appointment and terms must be approved by the Board at a meeting and by shareholders at the next general meeting; return in Form MR-1 is to be filed within 60 days. Applying these provisions to the facts...

2. Managerial remuneration

As per Section 197 read with Schedule V, the overall remuneration payable by a public company to directors including MD/WTD/Manager shall not exceed 11 percent of net profits computed under Section 198, unless authorised by the company in general meeting subject to Schedule V. Remuneration to one MD/WTD/Manager is normally capped at 5 percent and to all MD/WTD/Manager at 10 percent. Remuneration to other directors is capped at 1 percent if MD/WTD/Manager exists, otherwise 3 percent, unless special resolution is passed. Applying these limits...

3. No/inadequate profits

Where profits are inadequate or absent, remuneration is governed by Schedule V. Effective capital is computed by adding paid-up share capital, securities premium, reserves and surplus excluding revaluation reserve, and long-term loans/deposits repayable after one year, and deducting investments, accumulated losses and preliminary expenses not written off. The applicable slab is then selected and shareholder approval/Schedule V conditions checked. Applying this formula...

4. Secretarial audit

Under Section 204 read with Rule 9, secretarial audit applies to every listed company, every public company having paid-up share capital of Rs. 50 crore or more or turnover of Rs. 250 crore or more, and every company having outstanding loans or borrowings from banks or public financial institutions of Rs. 100 crore or more, checked as on the last date of latest audited financial statements. The report is given by a company secretary in practice in Form MR-3 and annexed to the Board report. Applying these thresholds...

Chapter 3 - Meetings of Board and Its Powers

Comprehensive exam-oriented Word notes with mega case study, trigger charts, case-booklet questions and answers

Source discipline: Prepared only from the uploaded study material: ICAI Chapter 3 module, Case Scenario Booklet, SPOM Set A All Important Points PDF, and Hemant Somani SPOM Law notes. No online or external source has been used.

How to use these Chapter 3 notes

- Read the mega case study first. It compresses the whole chapter into one continuing story so that every provision has a factual trigger.
- Then revise the section-wise notes. Focus on: meeting validity, quorum, board-only powers, shareholder approval, interested director issues, loans/security/investments, related party transactions and registers.
- Use the what-if matrices to test your ability to identify whether a transaction is void, voidable, valid after approval, or punishable.
- Finally solve the case-booklet digest and the practice questions. Answers are placed immediately below so revision is fast.

Core mental model: Chapter 3 is about governance decision-making. Ask four questions in every case: (1) who is deciding - Board, committee, shareholders or NCLT? (2) was the meeting valid - notice/quorum/mode? (3) is the director interested or related? (4) is approval/filing/register/disclosure required?

A. Mega Integrated Case Study - The Governance Crisis of Astra Mobility Limited

Facts

Astra Mobility Limited (AML) is a listed public company manufacturing electric vehicle components. It has 12 directors: 4 executive directors, 4 non-executive directors and 4 independent directors. It has paid-up share capital of Rs. 120 crore, turnover of Rs. 850 crore, borrowings from banks and public financial institutions, and several subsidiaries. The Board wants to expand rapidly, but multiple governance events happen in one financial year:

- AML was incorporated on 1 April and held its first Board meeting on 5 May. Later, it held meetings on 10 May, 20 September, 10 January and 30 March.
- The Articles are silent on e-mail notice. The Company Secretary sends notice of a Board meeting by e-mail 3 days before the meeting because a plant acquisition is urgent.
- At the short-notice meeting, no independent director is present. The Board approves quarterly results, a loan to a group entity and a related party supply contract.
- Two foreign directors attend through video conferencing. At roll call, one director does not state whether agenda papers were received and another has his CFO sitting in the same room.
- The Board has 12 directors, but 2 offices are vacant. Only 3 directors attend. For one agenda item, 8 directors are interested because their relatives hold stakes in the counterparty.
- The Board wants to pass a circular resolution to approve borrowing, investment of surplus funds, a loan guarantee, and an appointment of internal auditor.
- AML constitutes an Audit Committee of 3 directors, but only 1 is independent. The committee gives omnibus approval for all related party transactions for 5 years.
- AML has more than 1,000 debenture holders and shareholders. It does not constitute the Stakeholders Relationship Committee.
- The Board wants to sell one manufacturing division contributing 25 percent of net worth and 22 percent of total income.
- AML wants to borrow Rs. 900 crore when existing borrowings plus proposed borrowings exceed paid-up share capital + free reserves + securities premium. The proposed borrowing excludes temporary banker loans.
- AML donates Rs. 50 lakh to a charitable trust when its average net profit for the immediately preceding three financial years is Rs. 8 crore.
- AML contributes Rs. 2 crore to a political party through a Board resolution. AML was incorporated only 2 financial years ago in an alternative situation.
- AML contributes to the National Defence Fund by approval of the CSR committee only.
- Director Mr. R holds 3 percent shares in Rocket Suppliers Pvt. Ltd. AML enters into a supply contract with Rocket. Mr. R discloses his interest after discussion but votes in the meeting.
- AML gives a loan to Mr. R, to a firm in which Mr. R's spouse is a partner, to a private company in which Mr. R is a director/member, to a wholly owned subsidiary and to an employee.
- AML proposes inter-corporate loans and investments. Its proposed loan and investment exceed 60 percent of paid-up share capital + free reserves + securities premium and 100 percent of free reserves + securities premium.
- AML enters into purchase, sale, leasing, services, office of profit and underwriting transactions with related parties. Some are ordinary course and arm's length, while others exceed prescribed thresholds.
- AML maintains MBP-1, MBP-2, MBP-3 and MBP-4 registers but stores them at a branch office without Board approval and without proper authentication.
- AML pays compensation to a director for loss of office when an undertaking is transferred. Shareholders were not informed of the amount and basis of compensation.
- AML is an OPC in a separate mini-scenario and enters into a contract with its sole member-director in the ordinary course of business.

Master trigger map from the mega case

Case trigger	Provision	Exam answer / consequence
First Board meeting on 5 May after 1 April incorporation	Section 173(1)	Invalid timing. First Board meeting must be within 30 days of incorporation.
Gaps between Board meetings exceed 120 days	Section 173(1)	Contravention unless the company falls under special exemption. Minimum 4 meetings every year and gap not more than 120 days.
OPC/small/dormant/start-up private company	Section 173(5)	One meeting in each half of calendar year with gap not less than 90 days; OPC with one director is exempt.
Board notice by e-mail	Section 173(3)	Valid mode. Notice may be by hand delivery, post or electronic means; articles need not expressly permit e-mail.
Shorter notice	Section 173(3)	Allowed only for urgent business and at least one independent director, if any, must be present; otherwise decisions final only after ratification by at least one independent director.
VC attendance	Section 173(2) + Rule 3	Allowed if audio-visual facility records/recognises participation, stores proceedings with date/time and procedural safeguards are followed.
Unauthorised person in VC room	Rule 3	Defect in integrity/confidentiality. Chairperson/CS must ensure no person other than concerned director has access.
Quorum for 12 directors with 2 vacancies	Section 174(1)	Total strength = 10. Quorum is higher of 1/3 rounded up or 2 = 4. Three directors are insufficient.
Interested directors >= 2/3 of total strength	Section 174(3)	Non-interested directors present, not less than 2, constitute quorum for that item.
Circular resolution for borrowing/investment/loan guarantee	Sections 175 + 179(3)	Board-only powers under Section 179(3) must be exercised at a duly convened Board meeting, not by circulation.
Audit Committee not majority independent	Section 177(2)	Listed public and prescribed companies require Audit Committee of minimum 3 directors with independent directors forming majority.
Omnibus approval for 5 years	Rule 6A	Invalid. Omnibus approval is valid for maximum one financial year and cannot be used for sale/disposal of undertaking.
No Stakeholders Relationship Committee despite 1000+ security holders	Section 178(5)	Committee required where combined security holders exceed 1,000 at any time during a financial year.
Sale of division with undertaking thresholds	Section 180(1)(a)	Special resolution required if whole/substantially whole of undertaking is sold/leased/disposed.
Borrowing beyond paid-up capital + free reserves + securities premium	Section 180(1)(c)	Special resolution required. Temporary banker loans in ordinary course are excluded.
Charitable donation > 5 percent average net profits	Section 181	Prior permission by ordinary resolution required; up to 5 percent can be approved by Board.
Political contribution	Section 182	Board resolution at meeting is mandatory; Government company and company in existence for less than 3 financial years cannot contribute.
Contribution to National Defence Fund	Section 183	Board resolution, or authorised person, or shareholders may approve. No monetary cap; disclose in P&L.
Director holds 3 percent in counterparty	Section 184	Specific disclosure required; interested director should not participate in meeting. Contract may be voidable if disclosure not made.
Loan to director / spouse's firm	Section 185(1)	Prohibited category.
Loan to private company in which director is director/member	Section 185(2)	Allowed with special resolution and loan to be used for principal business activities.
Loan to wholly-owned subsidiary	Section 185(3)	Exception if used for principal business activities; direct loan to subsidiary generally covered by exception as per conditions.
Inter-corporate loan/investment limits exceeded	Section 186	Unanimous Board resolution, prior PFI approval where applicable, special resolution if limits exceeded, interest floor, register and disclosure requirements.
RPT ordinary course + arm's length	Section 188 proviso	No approval under Section 188, though Audit Committee approval under Section 177 may still apply where applicable.
RPT not ordinary course/not arm's length	Section 188 + Rule 15	Board approval at meeting. Shareholder approval if thresholds crossed; related parties generally cannot vote.
Registers kept at branch without approval	Sections 186/187/189 and rules	Register maintenance/location/authentication rules must be followed; certain registers should be at registered office unless Board approves otherwise.
Compensation for loss of office	Section 191/202	Requires disclosure/approval and cannot be paid in prohibited situations; compensation limits apply.
OPC contract with sole member-director	Section 193	If not in writing, terms must be recorded in minutes; OPC must inform ROC within 15 days unless contract is in ordinary course of business.

What-if scenario matrix

What if...	Provision-wise answer
What if a Board meeting is held on a public holiday?	It can be held. If adjourned for want of quorum, the automatic next-week adjournment rule excludes only national holidays unless articles provide otherwise.
What if notice is not sent to one director?	Every officer whose duty it is to give notice is liable to penalty; the meeting/action may be challenged due to non-compliance.
What if a director says he cannot attend and agenda is already discussed?	If notice was properly given, non-attendance does not invalidate the meeting; but notice must still be served.
What if alternate director is appointed?	Notice should be sent to both original and alternate director in relevant situations; in exam, prefer both to avoid defect.
What if interested directors are exactly 2/3 of the Board?	Section 174(3) applies when interested directors exceed or are equal to 2/3. Minimum two non-interested directors present form quorum.
What if quorum is present at start but falls below later?	Quorum must be present throughout. If it falls below quorum, remaining agenda cannot be validly transacted.
What if all directors are interested?	Shareholders may decide because Board is incompetent due to absence of disinterested quorum.
What if 1/3 directors demand a circular matter be placed in a meeting?	Chairperson must put it to a Board meeting instead of passing by circulation.
What if an Audit Committee rejects a transaction not covered by Section 188?	It must make recommendations to the Board. For transactions up to Rs. 1 crore entered without approval, ratification within 3 months can save it; otherwise voidable at Audit Committee option.
What if a political contribution is routed through a publication/souvenir?	It can be deemed political contribution if the publication is by/on behalf of or for advantage of a political party.
What if charitable contribution is for company business welfare?	If it is for business purpose or employee welfare, it may not be charitable contribution under Section 181 analysis.
What if director later becomes interested after	He must disclose his interest forthwith or at the first Board meeting after becoming interested.

contract is entered?	
What if loan is to employee?	Loans to employees are generally outside Section 186 limit check and also not a director-loan issue unless employee is covered person.
What if company gives security to subsidiary for loan used for non-business purpose?	Section 185 exception fails because proceeds must be used for principal business activities.
What if investment is through wholly-owned subsidiary?	Two-layer investment restriction has exception, but other Section 186 compliance may still be checked.
What if RPT is with a wholly-owned subsidiary whose accounts are consolidated?	For certain transactions, special exemptions apply, but Board/Audit Committee requirements must be separately checked based on facts.
What if related party transaction is not ratified within 3 months?	It becomes voidable at the option of the Board/shareholders as applicable; concerned director/employee may indemnify the company.
What if a company fails to maintain MBP-4 register?	Contravention attracts penalty and weakens validity/evidence of interested contracts and arrangements.
What if compensation for loss of office is paid without shareholder approval?	Payment is held in trust for company and director must refund; penalty may apply.
What if OPC contract is ordinary course of business?	Section 193 intimation requirement does not apply to ordinary course written contracts.

B. Section-wise Comprehensive Notes

1. Board meetings - Section 173

Area	Rule	Exam trigger
First Board meeting	Every company must hold first Board meeting within 30 days of incorporation.	Date of incorporation vs date of first meeting.
Subsequent meetings	Minimum 4 Board meetings every year; gap between two consecutive meetings cannot exceed 120 days.	Check exact day gap; not merely number of meetings.
OPC/small/dormant/start-up private company	One Board meeting in each half of calendar year and gap not less than 90 days.	Half year = Jan-Jun and Jul-Dec; not financial-year half.
OPC with one director	No Board meeting required.	Section 173 and 174 practically not applicable.
Section 8 company	One meeting within every six calendar months, subject to no filing default.	Exemption conditional on filings under Sections 137 and 92.
Notice	Not less than 7 days in writing to every director at registered address; mode: hand delivery, post, electronic means.	E-mail valid even if articles silent.
Shorter notice	For urgent business; at least one independent director, if any, present.	If no ID present, circulate decisions to all directors and final only on ratification by at least one ID.
Penalty for notice default	Officer whose duty is to give notice liable to penalty of Rs. 25,000.	Usually Company Secretary or authorised person.

Video conferencing / other audio-visual means - Rule 3 practical checklist

Point	Requirement
Facility	Must enable concurrent communication without intermediary and effective participation.
Recording	Must record and recognise participation; proceedings stored with date and time.
Notice	Must mention VC/AV option and provide necessary details.
Director intimation	Director intending to attend by VC gives prior intimation; annual declaration valid for one year.
Roll call	Each VC director states name, location, receipt of agenda/material, and confirms no unauthorised person has access.
Quorum	VC director counted for quorum except where excluded for a particular item.
Venue	Scheduled venue in notice is deemed venue; recordings deemed made there.
Registers	Deemed signed by electronic participant if consent recorded in minutes.
Voting	If motion objected, chairperson calls roll and records vote of each director.
Minutes	Draft minutes circulated within 15 days; director to confirm/give comments within 7 days or reasonable time; approval presumed if no response.

Notice traps

- Notice must be sent even if a director is abroad or has communicated inability to attend.
- Agenda notes may be sent along with notice or separately; if sent later, ensure proper circulation and proof.
- Audio-only participation is not enough where law requires audio-visual means.
- Participation by VC/AV is a statutory right, subject to prescribed requirements.
- Shorter notice is not a shortcut for ordinary business. The business must be urgent.

2. Quorum - Section 174

Situation	Rule	Example answer
General quorum	Higher of 1/3 of total strength or 2 directors. Any fraction rounded up as 1.	Total strength 10 -> 1/3 = 3.33 -> 4. Quorum = 4.
Total strength	Total directors after deducting vacant offices.	12 directors, 2 vacancies -> total strength 10.
VC attendance	Counts for quorum unless director is excluded for the agenda item.	VC director counted for general agenda.
Interested directors >= 2/3	Non-interested directors present, not less than 2, constitute quorum.	15 directors; 13 interested; 2 non-interested present can transact that item.
Interested director in private company exemption	In specified private companies, interested director may participate after disclosure.	Subject to conditions and not defaulting filings.
Quorum absent	Meeting automatically stands adjourned to same day/time/place next week or next non-national holiday unless articles provide otherwise.	Sunday is not national holiday; adjourned meeting can be held on Sunday.
Continuing directors below quorum	Continuing directors may act only to increase number of directors to quorum or call general meeting.	They cannot carry normal business.

3. Resolution by circulation - Section 175

Element	Rule
Mode	Draft resolution with necessary papers sent to all directors/committee members at their registered Indian address by hand/post/courier/electronic means.
Approval	Passed when approved by majority of directors/members entitled to vote.
Mandatory meeting trigger	If at least 1/3 of total directors require that a circular matter be decided at meeting, chairperson must put it in Board meeting.
Noting	Circular resolutions must be noted at subsequent Board/committee meeting and made part of minutes.
Cannot use circulation	Matters requiring Board meeting only: e.g., Section 179(3) powers, political contribution, RPT approval, loans/investments under Section 186, appointment of internal/secretarial auditor, etc.

4. Audit Committee and Vigil Mechanism - Section 177

Topic	Rule / exam point
Applicability	Every listed public company and prescribed public companies based on paid-up share capital, turnover or loans/debentures/deposits.
Composition	Minimum 3 directors with independent directors forming majority. Majority of members including chairperson must be able to read and understand financial statements.
Board report	Composition disclosed in Board report; if Board does not accept Audit Committee recommendation, disclose with reasons.
Terms of reference	Auditor appointment/remuneration recommendation, audit independence/performance, financial statements and auditor report, RPT approval/modification, inter-corporate loans/investments scrutiny, valuation, internal financial controls/risk management, end-use of public offer funds.
RPT approval	All RPTs require Audit Committee approval where committee exists; omnibus approval permitted subject to Rule 6A.
Omnibus approval	Board-approved criteria; maximum aggregate/per transaction values; review intervals; repetitive nature; valid for one financial year; fresh approval after expiry; not for sale/disposal of undertaking.
Rights	Can call for auditor comments, review financial statements before Board submission, discuss audit issues, investigate matters, obtain external professional advice and access company records.
Auditor/KMP right	Auditors and KMP have right to be heard in Audit Committee meetings when auditor report is considered, but no vote.
Vigil mechanism	For directors/employees to report genuine concerns. Must provide safeguards against victimisation and direct access to Audit Committee chairperson in appropriate cases.

5. Nomination and Remuneration Committee + Stakeholders Relationship Committee - Section 178

Committee	Applicability/composition	Main functions / exam trigger
NRC	Listed public companies and prescribed public companies. Minimum 3 non-executive directors; at least 1/2 independent directors. Chairperson may be company chairperson if NED.	Identify qualified directors/KMP/senior management; recommend appointment/removal; evaluate directors; recommend remuneration policy; lay criteria and disclose policy in Board report/website.
Stakeholders Relationship Committee	Company with more than 1,000 shareholders/debenture holders/deposit holders/other security holders at any time during FY.	Consider and resolve grievances of security holders. Chairperson is non-executive director. Composition and grievances resolved/pending disclosed.

6. Powers of Board - Section 179

Board-only power at duly convened Board meeting	Memory point
Make calls on shareholders in respect of money unpaid on shares	Shares-related power.
Authorise buy-back of securities under Section 68	Board can authorise buy-back up to 10 percent of paid-up equity capital and free reserves if conditions met.
Issue securities, including debentures, in or outside India	Cannot be merely circular.
Borrow monies	May be delegated under proviso.
Invest company funds	May be delegated under Section 179, but Section 186 investments need unanimous Board approval and cannot simply be delegated when Section 186 applies.
Grant loans or give guarantee/security in respect of loans	May be delegated under Section 179, subject to Section 186.
Approve financial statement and Board report	Board meeting only.
Diversify business	Board meeting only.
Approve amalgamation, merger or reconstruction	Board meeting only.
Take over company or acquire controlling/substantial stake	Board meeting only.
Other specified powers	Political contribution, RPT approval, Section 186 loans/investments, casual vacancy, appointment of certain MDs, internal/secretarial auditors.

Delegation permitted only for borrowing monies, investing funds, and granting loans/guarantee/security, and only to permitted persons/committee with conditions. Always check if a specific section like 186 overrides simple delegation.

When shareholders can step in despite Board powers

- Directors act mala fide or for personal benefit against company interest.
- All directors are interested and Board cannot form valid quorum.
- Deadlock in management because directors are unwilling/unable to act.
- Board fails to act in an emergency.

7. Restrictions on Board powers - Section 180

Section 180 clause	Special resolution required for	Key thresholds / exceptions
180(1)(a)	Sell, lease or otherwise dispose of whole/substantially whole undertaking.	Substantially whole = 20 percent or more of value of undertaking. Undertaking = investment exceeds 20 percent of net worth or generates 20 percent of total income. Ordinary course exception e.g. banking/property business.
180(1)(b)	Invest compensation received from merger/amalgamation otherwise than in trust securities.	Requires special resolution unless invested in trust securities.
180(1)(c)	Borrow money where existing + proposed borrowings exceed paid-up share capital + free reserves + securities premium.	Temporary loans from company bankers in ordinary course of business excluded. Amount must be specified in SR.
180(1)(d)	Remit/give time for repayment of any debt due from a director.	Special resolution required.

8. Charitable, political and National Defence Fund contributions - Sections 181 to 183

Provision	Who can contribute	Limit / approval	Disclosure / penalty

Section 181 - Charitable funds	Public and private companies.	Up to 5 percent of average net profits of immediately preceding 3 FY: Board resolution. Above 5 percent: prior ordinary resolution.	No specific P&L disclosure in this section. Amount spent for business/employee welfare is not charitable contribution.
Section 182 - Political contribution	Any company except Government company and company in existence for less than 3 financial years.	No maximum monetary limit. Board resolution at Board meeting required. Account payee cheque/draft/ECS/electoral instrument route.	Disclose total contribution in P&L. Company fine up to 5 times contribution; officer imprisonment up to 6 months + fine up to 5 times.
Section 183 - National Defence Fund	Any company.	Any amount. Board, authorised person, or shareholders may approve. Overriding effect.	Total amount contributed disclosed in P&L. No maximum cap.

9. Disclosure of interest by director - Sections 184 and 189

Disclosure type	When / form / storage	Exam consequence
General disclosure	Every director must disclose concern/interest in companies, bodies corporate, firms or association of individuals in Form MBP-1 at first Board meeting in which he participates, first Board meeting of every FY, and whenever there is change.	Must be kept at registered office under custody of CS/authorised person for 8 years from end of FY.
Specific disclosure	At Board meeting where contract/arrangement is discussed, if director is directly/indirectly concerned or interested.	Interested director should not participate in such meeting. If disclosure not made, contract/arrangement is voidable at option of company.
Coverage of specific disclosure	Body corporate where director alone/with others holds more than 2 percent shareholding or is promoter/manager/CEO; firm/other entity where director is partner/owner/member.	2 percent trigger is a classic MCQ point.
Section 184(2) exemptions	Certain cases such as transactions between companies and low-value related party transactions as specified.	Always check whether disclosure is still advisable even if participation restrictions differ.
Register of contracts - MBP-4	Company maintains register of contracts/arrangements in which directors are interested and RPTs; entries authenticated by CS/authorised person.	Inspection by members; extracts/copies as per rules; must be preserved permanently.

10. Loans to directors - Section 185

Category	Covered person / transaction	Position
Absolutely prohibited - 185(1)	Loan, guarantee or security to director of company/holding company, partner or relative of such director, or firm in which such director/relative is partner.	Not allowed.
Restricted but allowed - 185(2)	Any person in whom any director is interested: private company where director is director/member; body corporate where director(s) hold 25 percent or more voting power; body corporate whose Board/MD/manager acts per directions of director/lending company director.	Allowed only with special resolution and loan to be used for principal business activities. Explanatory statement must disclose full particulars and purpose.
MD/WTD exception	Loan to MD/WTD as part of conditions of service extended to all employees or pursuant to scheme approved by special resolution.	Allowed.
Ordinary course lending exception	Company in ordinary course of business provides loans/guarantee/security and charges interest not less than yield of 1/3/5/10-year Government security closest to loan tenor.	Allowed.
WOS/subsidiary exception	Loan/guarantee/security to WOS or guarantee/security to subsidiary, used for principal business activities.	Allowed if condition satisfied.
Private company exemption	Section 185 not applicable to private company giving LGS if: no body corporate invested in share capital; borrowings from banks/FIs/BCs below 2x paid-up share capital or Rs. 50 crore, whichever lower; no default in repayment.	Check all 3 conditions cumulatively.
Clarification traps	Sale of flats to director on instalment basis is not a loan; advance to director for business expense is not loan; loan to a person who later becomes specified is checked prospectively.	Fact-specific, but useful in MCQs.

11. Loans, guarantees, securities and investments - Section 186

Area	Rule / threshold
Investment layers	A company cannot make investment through more than 2 layers of investment companies. Exceptions: acquisition of foreign company with more layers as per foreign law; subsidiary having investment subsidiary to comply with law.
Limit for LGSI	Company cannot directly/indirectly give loans/guarantees/security or acquire securities beyond higher of: 60 percent of paid-up share capital + free reserves + securities premium, or 100 percent of free reserves + securities premium, unless special resolution passed.
Board approval	Unanimous approval of directors present at Board meeting required. Resolution by circulation not allowed.
PFI approval	Prior approval of public financial institution required where term loan subsists and limits are exceeded or there is default; not required if within limits and no default.
Interest rate	Loan interest cannot be lower than prevailing yield of 1/3/5/10-year Government security closest to loan tenor.
Deposit default	Company in default in repayment of deposits/interest cannot give loan/guarantee/security or acquire securities till default subsists.
Disclosure	Financial statements must disclose full particulars and purpose of LGSI/utilisation.
Register MBP-2	Register maintained at registered office; entries made chronologically; authenticated by CS/authorised person; kept permanently; open to inspection and copies.
Exemptions	Loans to employees; banking/insurance/housing finance/infrastructure/industrial financing companies; investment companies/NBFCs; rights issue; Government companies with approval; JV/WOS exceptions for special resolution as noted.

12. Investments held in company's own name - Section 187

Rule	Exception
All investments made/held by a company in property, securities or	Company may hold shares in subsidiary in nominees' names to meet

other assets must be held in its own name.	statutory minimum membership.
Register of investments not held in company name - MBP-3 must be maintained at registered office and preserved permanently.	Deposit with bank, shares/securities for collection, security for loan, beneficial holder cases and other permitted exceptions.

13. Related party transactions - Section 188

RPT type under Section 188(1)	Examples / threshold memory
Sale, purchase or supply of goods/materials	Directly or through agent. Board approval if covered; shareholder approval if threshold crossed.
Selling/disposal/buying property of any kind	Directly or through agent.
Leasing of property of any kind	Common case in exams: related party leases office/factory to company.
Availing/rendering services	Directly or through agent.
Appointment of agent	For purchase/sale of goods, materials, services or property.
Related party appointment to office/place of profit	Company/subsidiary/associate office of profit; remuneration threshold is important.
Underwriting subscription	Securities/derivatives of company.
Approval situation	**Rule**
Ordinary course + arm's length	Section 188(1) not attracted; no Board/shareholder approval under Section 188. However Audit Committee approval under Section 177 may still be needed where applicable.
Not ordinary course or not arm's length but below shareholder thresholds	Board approval at a meeting. Interested director not present during discussion.
Threshold crossed	Prior approval by resolution in general meeting. Related party generally cannot vote if member is related party, subject to exemptions.
100 percent Government company with another Government company	Prior Ministry/Department approval route noted in study material.
Holding company and wholly-owned subsidiary	Certain shareholder approval exemptions apply if accounts consolidated and placed before members.
No approval obtained but ratified within 3 months	Can be validated through Board/shareholder ratification as applicable.
No ratification within 3 months	Contract/arrangement voidable at option of Board/shareholders. Concerned director/employee/related party may indemnify company.
Disclosure	All RPTs to be disclosed in Board report with justification; board meeting agenda and general meeting explanatory statement must contain prescribed particulars.

Meaning of related party - quick memory list

- Director or KMP or their relatives.
- Firm in which director/manager/relative is partner.
- Private company in which director/manager/relative is member or director.
- Public company in which director/manager is director and holds along with relatives more than 2 percent paid-up share capital.
- Body corporate whose Board/MD/manager is accustomed to act on advice/directions/instructions of director or manager, excluding professional capacity.
- Any person on whose advice/directions/instructions director or manager is accustomed to act, excluding professional capacity.
- Holding, subsidiary, associate, fellow subsidiary and investing company/venturer relationships as specified.
- Director other than independent director or KMP of holding company or his relative with reference to a company.

14. Registers and forms - one-page memory table

Form/Register	Captures	Maintained by / when	Preservation / location
MBP-1	Director's general disclosure of interest under Section 184(1).	Director or KMP files with company at appointment/relinquishment/change; first Board meeting of participation and first Board meeting of each FY.	Company keeps at registered office under CS/authorised person custody for 8 years from end of FY.
MBP-2	Register of loans, guarantee, security and acquisitions under Section 186.	Company secretary/authorised person makes entries chronologically.	Registered office; preserved permanently; open to member inspection.
MBP-3	Register of investments not held in company's own name under Section 187.	Company maintains; authenticated by CS/authorised person.	Registered office; preserved permanently.
MBP-4	Register of contracts/arrangements in which directors are interested and RPTs under Section 189.	Company secretary or authorised person; entries when contract/arrangement occurs.	Registered office; preserved permanently; inspection at AGM and by members.

15. Compensation for loss of office and related provisions - Sections 191, 202 and 190

Provision	Rule / trigger
Section 190	Contract of employment with MD/WTD must be kept at registered office, either original written contract or written memorandum of terms. Open to member inspection; no fee. Penalty applies for default.
Section 191	Payment to director for loss of office etc. in connection with transfer of undertaking/property/shares needs disclosure and approval. If not approved, director holds amount in trust for company.
Section 202 eligibility	Compensation for loss of office is payable only to MD, WTD or Manager.
Section 202 cap	Maximum = lower of remuneration for unexpired term or 3 years, calculated on average remuneration actually earned during 3 years or shorter tenure.
No compensation	If reconstruction/amalgamation and appointed in new company; resignation due to reconstruction/amalgamation; office vacated under Section 167; winding up due to negligence/default; guilty of fraud/breach of trust/gross negligence/mismanagement; termination due to specified reasons.

16. Restrictions on non-cash transactions involving directors - Section 192

Rule	Exam trigger
Company cannot enter arrangement by which director of company/holding/subsidiary/associate or connected person acquires assets for consideration other than cash, or company acquires assets from such director/connected person for non-cash consideration, unless prior approval by ordinary resolution in general meeting.	If director is of holding company, holding company approval also required.

Notice of general meeting must include particulars of arrangement and value of assets duly calculated by registered valuer.	If violated, arrangement voidable at company option unless restitution impossible, third-party rights acquired for value without notice, or company indemnified.

17. Contract by OPC with sole member-director - Section 193

Situation	Requirement
OPC limited by shares/guarantee enters contract with sole member who is also director.	Unless contract is in writing or ordinary course of business, OPC must ensure terms are contained in memorandum or minutes of first Board meeting after entering into contract.
Intimation to ROC	OPC must inform ROC within 15 days of Board approval where terms are recorded in minutes.

C. Exam Application Checklists

1. Board meeting validity checklist

1. Identify company type: listed/public/private/Section 8/OPC/small/dormant/start-up private.
2. Check whether first Board meeting was within 30 days of incorporation.
3. Check number of meetings and gap of 120 days, or exemption half-year rule.
4. Check notice: minimum 7 days, written, to every director, correct registered address, valid mode.
5. If shorter notice, identify urgency and independent director presence/ratification.
6. Check mode: physical/VC/AV; if VC, verify roll call, recording, agenda receipt, no unauthorised person and minutes.
7. Check quorum at start and throughout; deduct vacancies; round up 1/3; higher of 2.
8. For each agenda item, remove interested directors and recalculate Section 174(3) if needed.
9. Check whether item can be done by circulation or requires Board meeting only.
10. Check whether shareholder approval, filing/register/disclosure is required after Board approval.

2. Transaction approval ladder

Transaction	Board approval	Shareholder approval	Other conditions
Ordinary Board business	Board meeting/resolution as applicable.	Usually no.	Notice/quorum/minutes.
Section 179(3) power	Board meeting only.	Depends on section e.g. buyback >10% etc.	Some powers delegable only under proviso.
Section 180 item	Board proposes.	Special resolution.	Specified thresholds.
Section 181 donation > 5%	Board recommends.	Ordinary resolution prior approval.	Average net profits of 3 immediately preceding FY.
Political contribution	Board resolution at meeting.	No shareholder approval specifically.	Not allowed for Govt co / <3 FY company; payment mode and disclosure.
Section 185(2) loan	Board approval + process.	Special resolution.	Use for principal business activity; explanatory statement.
Section 186 beyond limits	Unanimous Board approval.	Special resolution.	PFI approval if applicable; interest floor; register/disclosure.
RPT not OCOB/ALP	Board approval at meeting.	Shareholder approval if thresholds crossed.	Audit Committee approval where applicable; related party voting restriction.
Non-cash transaction with director	Board initiates.	Ordinary resolution.	Registered valuer; holding company approval if holding co director.

3. Void / voidable / invalid / penalty map

Defect	Legal impact
No proper notice of Board meeting	Penalty on officer; meeting/action may be vulnerable.
Quorum absent	Meeting cannot transact business; if adjourned, automatic adjournment rule applies.
Interested director participates where prohibited	Resolution/contract vulnerable; contravention of Section 184/188 principles.
Director does not disclose interest	Contract/arrangement voidable at company option; director liable to penalty.
Section 185 prohibited loan	Contravention with penalty/fine/imprisonment consequences.
Section 186 loan/investment without approvals	Contravention and penalties; transaction compliance failure.
RPT not approved and not ratified within 3 months	Voidable at option of Board/shareholders; indemnity from concerned director/employee/related party.
Non-cash transaction without OR	Voidable at option of company unless restitution impossible, company indemnified, or bona fide third-party rights intervened.
Compensation for loss of office paid without approval	Director holds money in trust for company; refund and penalties.
OPC fails Section 193 recording/intimation	Contravention of procedural requirement.

D. Relevant Case Scenario Booklet Digest - Chapter 3

The following are the Chapter 3 relevant questions identified from the Case Scenario Booklet. They are not copied verbatim; they are converted into quick exam-ready question-gists with answers and reasoning points.

Source case	Chapter 3 issue	Answer memory
Case Scenario 1 - Alfa Numerio Ltd.	Short-notice Board meeting, quarterly results, RPT with partnership firm where promoter director has interest.	Short notice is valid only with at least one independent director present; if no ID, decisions require circulation and ratification. RPT valid only if proper disinterested Board approval/Section 188 process followed. Quarterly results approval depends on meeting validity and listed entity rules.
Case Scenario 14 - Superior Software Ltd.	Directors had earlier disclosed interests; no change in FY; one director later acquires interest.	Fresh general disclosure is required at first Board meeting of every financial year. Change in interest must be disclosed at first Board meeting after change.
Case Scenario 21 - Sheetal Chemicals Ltd.	Listed company with Board and Audit Committee; quorum and Audit Committee composition/quorum.	Board quorum = higher of 1/3 total strength or 2, rounded up. Audit Committee of listed/prescribed company must have minimum 3 directors and majority independent directors; quorum rules must be checked by members and independent directors present.
Case Scenario 22 - Global Trade and Securities Ltd.	Political contribution, small shareholders director, Board quorum, excess remuneration recovery.	Political contribution needs Board resolution and company must not be Government company or less than 3 FY old. Board quorum after additional director is 1/3 rounded up or 2. Recovery/waiver of excess remuneration belongs to Ch. 2 but appears in scenario.
Case Scenario 30 - Shree Ram Garments Ltd.	Board strength increase, sale of undertaking, sitting fees, Board quorum.	Increasing directors beyond 15 needs special resolution (Ch. 1). Sale of undertaking requires special resolution under Section 180. Quorum after total strength 13 is 5. Sitting fee cap belongs to Ch. 2.
Case Scenario 46 - Iris Engineering Ltd.	Notice by e-mail, video conferencing, Board meetings, import and managerial/other mixed provisions.	E-mail notice is valid even if articles silent because Section 173 allows electronic means. VC attendance counts if Rule 3 complied with.
Case Scenario 57 - Tea Point Ltd.	Board meeting adjourned for want of quorum.	If quorum absent, meeting stands adjourned to same day/time/place next week unless articles provide otherwise. If next day is national holiday, then next succeeding non-national holiday.
Case Scenario 58 - Venus Ltd.	Listed company Audit Committee composition and meetings.	Listed entity Audit Committee composition/quorum and meeting frequency must be checked; independent director ratio and 120-day gap are recurring traps.

Case-question style practice with answers

Question-gist	Answer
Q1. A listed company sends Board meeting notice by e-mail though articles do not mention e-mail. Valid?	Yes. Section 173(3) permits notice by hand delivery, post or electronic means. Articles need not separately permit e-mail.
Q2. A Board meeting is called at 3 days notice for urgent borrowing. No independent director is present. Are decisions final?	No, if company has independent directors. Decisions must be circulated to all directors and become final only after ratification by at least one independent director.
Q3. Total directors are 13 after one new appointment. What is quorum?	1/3 of 13 = 4.33, rounded up to 5. Higher of 5 and 2 = 5.
Q4. Board has 15 directors and 13 are interested in one contract. Can 2 non-interested directors transact it?	Yes, where interested directors are equal to/exceed 2/3 of total strength, non-interested directors present, not less than 2, constitute quorum for that item.
Q5. Can Board approve Section 186 investment by circulation?	No. Section 186 approval requires Board meeting with consent of all directors present. Circular approval is not enough.
Q6. Can Audit Committee give omnibus approval for sale of undertaking?	No. Omnibus approval cannot be made for transactions involving selling/disposal of company undertaking.
Q7. Company wants charitable donation of Rs. 50 lakh; average net profits = Rs. 8 crore. Approval?	5 percent of Rs. 8 crore = Rs. 40 lakh. Donation exceeds 5 percent; prior ordinary resolution required.
Q8. Company incorporated 2 FY ago wants to give political contribution.	Not permitted. Company in existence for less than 3 financial years cannot contribute to political party.
Q9. Director holds 3 percent in a company that contracts with his company. What must he do?	Disclose specific interest under Section 184 and abstain from participation in Board meeting for that item, unless exemption applies.
Q10. Loan to a firm in which director's spouse is partner?	Prohibited under Section 185(1).
Q11. Loan to private company where director is director/member?	Covered under Section 185(2). Allowed only with special resolution, explanatory statement, and loan used for principal business activities.
Q12. Loan to WOS for principal business activities?	Allowed under Section 185(3) exception and Section 186 special resolution relaxation, subject to other compliance.
Q13. Related party transaction is ordinary course and arm's length. Section 188 approval?	No Board/shareholder approval under Section 188, but Audit Committee approval may still be required if Section 177 applies.
Q14. RPT not ratified within 3 months.	Voidable at option of Board/shareholders; concerned director/employee/related party may have to indemnify company.
Q15. OPC contract with sole member-director not in writing and not ordinary course.	Terms must be recorded in memorandum or minutes of first Board meeting after contract and ROC informed within 15 days of Board approval.

E. Last-Day Revision Charts

1. Section number map

Section	One-line memory
173	Board meetings: frequency, VC/AV participation, notice, shorter notice.
174	Quorum for Board meetings; interested director quorum; adjournment for lack of quorum.
175	Resolution by circulation.
176	Defects in appointment of directors not invalidating acts done before defect noticed.
177	Audit Committee and vigil mechanism.
178	NRC and Stakeholders Relationship Committee.
179	Powers of Board and Board-only powers.
180	Restrictions on Board powers needing special resolution.
181	Charitable contributions.
182	Political contributions.
183	National Defence Fund contributions.
184	Disclosure of interest by directors.
185	Loans to directors and related persons.
186	Loans, guarantees, securities and investments by company.
187	Investments to be held in own name.
188	Related party transactions.
189	Register of contracts/arrangements in which directors are interested.
190	Contract of employment with MD/WTD.
191	Payment to director for loss of office in connection with transfer.
192	Restriction on non-cash transactions involving directors.
193	OPC contract with sole member-director.

2. Approval memory chart

Only Board meeting	Special resolution	Ordinary resolution	Other
Section 179(3) powers; political contribution; RPT Board approval; Section 186 unanimous approval; internal/secretarial auditor appointment.	Section 180 restrictions; Section 185(2) loans; Section 186 beyond limits; increase directors beyond 15; certain remuneration/waiver matters from Ch. 2.	Section 181 >5 percent charitable donation; Section 192 non-cash transactions; certain shareholder approvals under RPT if prescribed as ordinary resolution.	Audit Committee approval for RPTs; PFI approval for Section 186 in specified cases; Ministry approval for certain Govt company RPTs.

3. Most-tested numbers

Number	Where used
30 days	First Board meeting from incorporation; filing many forms in other chapters.
7 days	Minimum Board meeting notice.
3 days? / shorter notice	No fixed minimum; urgent business and ID presence/ratification required.
4 meetings / 120 days	General Board meeting frequency and maximum gap.
1 meeting each half / 90 days gap	OPC/small/dormant/start-up private company exemption.
1/3 or 2, higher	Board quorum; fraction rounded up.
2/3 interested directors	If interested directors equal/exceed 2/3, two non-interested directors can form quorum.
15 days	Draft minutes circulation after VC/AV Board meeting; OPC ROC intimation under Section 193.
7 days	Director comments/confirmation on VC minutes.
3 months	Ratification period for RPT/AC transactions and some vacancy/time limits elsewhere.
5 percent	Charitable contribution threshold; Section 181.
3 financial years	Company must exist for 3 FY to make political contribution.
60 percent / 100 percent	Section 186 limits.
25 percent voting power	Section 185 body corporate trigger.
2 percent paid-up share capital	Section 184/related party public company/director interest trigger.
8 years	Preservation of MBP-1 custody.
Permanently	MBP-2/MBP-3/MBP-4 registers.

4. Examiner traps

- “Board approved unanimously” is not enough if the law requires shareholder approval, special resolution, Audit Committee approval, PFI approval, or disinterested quorum.
- “All directors present approved short notice” is not the test. For shorter notice, presence of at least one independent director, if any, is crucial.
- “Listed company” often brings Audit Committee, Stakeholders Relationship Committee and stricter governance angle.
- “Ordinary course of business” and “arm’s length” are cumulative for Section 188 exemption.
- “Director did not vote” is not enough if he participated in discussion when he should not have been present.
- “Loan to subsidiary” is not automatically valid; check WOS/subsidiary type, guarantee/security/direct loan and principal business activity use.
- “Investment can be delegated under Section 179” is unsafe where Section 186 applies; Section 186 needs unanimous Board approval.
- “Political contribution has no limit” does not mean any company can contribute. Government company and companies below 3 FY are barred.
- “Public holiday” is not the same as “national holiday” for adjourned Board meeting rule.
- “Registers exist” is not enough. Check form, place, authentication, inspection and preservation.

F. Ready-to-Write Answer Templates

1. Board meeting validity

The problem relates to validity of Board meeting under Sections 173 and 174. A Board meeting requires proper notice of not less than 7 days to every director, unless it is called at shorter notice for urgent business with at least one independent director present, if any. Further, quorum must be higher of one-third of total strength or two directors, with fractions rounded up, and must be present throughout. Participation through VC/AV is counted if Rule 3 requirements are satisfied. Applying these provisions, [insert facts], therefore [meeting/resolution is valid/invalid/subject to ratification].

2. Interested director / RPT

The facts involve a contract/arrangement with a related party and/or director's interest. Under Section 184, a director concerned or interested must disclose the nature of concern or interest and should not participate in the meeting for that item, subject to applicable exemptions. Under Section 188, RPTs require Board approval at a meeting unless the transaction is in the ordinary course of business and at arm's length. If prescribed thresholds are crossed, approval of shareholders is also required. Applying these provisions, [insert facts], therefore [approval/disclosure/ratification consequence].

3. Section 185 loan

The transaction is to be tested under Section 185. First identify whether the recipient is in the prohibited category under Section 185(1), the restricted category under Section 185(2), or an exception under Section 185(3). If it is a restricted category, special resolution and utilisation for principal business activities are required. If it is an exception, conditions such as ordinary course lending interest floor or principal business activity use must be satisfied. Applying the facts, [insert conclusion].

4. Section 186 LGSI

The transaction is loan/guarantee/security/investment under Section 186. The limit is the higher of 60 percent of paid-up share capital plus free reserves plus securities premium, or 100 percent of free reserves plus securities premium. A unanimous Board resolution at a meeting is required; if the limit is exceeded, special resolution is also required. PFI approval may be required where term loan subsists and conditions are not satisfied. Interest rate, deposit default, disclosure and register requirements must also be checked. Applying the facts, [insert conclusion].

5. Section 180 special resolution

The Board's power is restricted by Section 180. For sale/lease/disposal of the whole or substantially whole undertaking, or borrowing beyond paid-up share capital plus free reserves plus securities premium, the Board needs consent of the company by special resolution. Temporary loans from bankers in ordinary course are excluded for borrowing limit. Applying the facts and thresholds, [insert conclusion].

G. Self-Test Questions

No.	Question	Answer
1	A company holds four meetings in a year but gap between two meetings is 130 days. Is it compliant?	No. Both conditions must be satisfied: minimum meetings and maximum 120-day gap.
2	Can an OPC with one director avoid Board meetings?	Yes. OPC with one director is exempt from Section 173/174 meeting requirement.
3	Can a director attend by video conference without prior yearly declaration?	Yes, he may give prior intimation for that meeting; yearly declaration is optional convenience.
4	If quorum is present physically, can other directors participate through VC for restricted matters?	Yes, where physical quorum exists, others may participate through VC/AV for matters otherwise requiring physical presence as per proviso.
5	Can circular resolution be used for casual vacancy appointment?	No, casual vacancy under Section 161(4) is a Board meeting item in the notes.
6	Is Audit Committee approval required for every RPT?	Where Audit Committee exists, yes, RPTs require its approval; Section 188 exemption affects Board/shareholder approval under that section, not necessarily Audit Committee approval.
7	Can Board ignore Audit Committee recommendations?	Yes, but Board report must disclose non-acceptance and reasons.
8	Can shareholders tell Board how to run day-to-day business?	Generally no; exceptions include mala fide directors, all interested directors, deadlock or Board inability/failure to act.
9	Can political contribution be made by electronic clearing system?	Yes, permitted payment mode includes ECS through bank account.
10	If director discloses general interest at appointment, must he disclose again next FY?	Yes, at first Board meeting of every financial year.
11	Does Section 185 cover body corporate with director holding 25 percent voting power?	Yes, it falls under Section 185(2), allowed with special resolution and principal business activity use.
12	Are loans to employees included in Section 186 limit check?	No, employee loans are generally excluded as noted in important points.
13	Can RPT approval be obtained after transaction?	Ratification within 3 months can save it; otherwise it becomes voidable as applicable.
14	Where must MBP-4 be kept?	At registered office, with prescribed inspection and preservation requirements.
15	Can compensation for loss of office be paid to ordinary director?	No. Section 202 compensation is payable only to MD/WTD/Manager.

H. One-page Final Revision Summary

- 173 = meetings/notice/VC. General rule: 4 meetings, 120 days gap, 7 days notice. Short notice needs urgent business + ID presence/ratification.
- 174 = quorum. Higher of 1/3 total strength or 2; fraction rounded up; deduct vacancies; interested directors can change quorum for an item.
- 175 = circular resolutions. Majority approval, but 1/3 directors can demand meeting; Board-only powers cannot be circular.
- 177 = Audit Committee + vigil mechanism. Minimum 3 directors, IDs majority, financial literacy; AC approves RPTs and can give one-year omnibus approval.
- 178 = NRC + SRC. NRC handles appointment/remuneration policy; SRC required when security holders exceed 1,000.
- 179 = powers of Board. Certain powers only at Board meeting. Delegation only for borrowing, investing and loans/guarantee/security, subject to specific provisions.
- 180 = Board restrictions. Special resolution for undertaking sale, non-trust compensation investment, borrowing beyond limits, and debt relief to director.
- 181/182/183 = charitable, political, National Defence Fund. Remember 5 percent charitable threshold; political contribution no limit but Board resolution and company eligibility; NDF no limit.
- 184/189 = director interest disclosure and registers. MBP-1 + specific disclosure + MBP-4.
- 185 = loans to directors. Prohibited vs restricted with SR vs exceptions. Always classify recipient first.
- 186 = LGSI. 60 percent/100 percent limits, unanimous Board, SR if exceeded, PFI approval, interest floor, register, disclosure.
- 188 = RPT. Ordinary course + arm's length = no Section 188 approval. Otherwise Board approval; shareholder approval if thresholds crossed; ratification within 3 months.
- 190-193 = contracts/compensation/non-cash/OPC. Good for MCQ and case-study endings.

Chapter 4 - Inspection, Inquiry and Investigation

Comprehensive exam-oriented Word notes with mega case study, penalties section, what-if triggers, and case-booklet questions

Source discipline: Prepared only from the uploaded material: ICAI Chapter 4 module, Case Scenario Booklet, SPOM Set A All Important Points PDF, and Hemant Somani SPOM Law notes. No online or external source has been used.

How to use these Chapter 4 notes

- Start with the mega case study. It converts Sections 206 to 229 into one connected fraud/inquiry story so you can remember the sequence.
- Then revise the section-wise tables. This chapter is mostly procedural: notice, inquiry, inspection, search/seizure, investigation, SFIO, inspector powers, Tribunal restrictions, reports, prosecution, expenses and penalties.
- Use the penalties section separately before exams. It collects all fine/imprisonment/fraud triggers at one place.
- Solve the case-booklet digest at the end. Answers are placed immediately below each question for fast revision.

Core mental model: Chapter 4 moves from LOW INTENSITY to HIGH INTENSITY action: RoC scrutiny and notice -> inquiry/inspection -> search/seizure -> inspection report -> CG investigation -> SFIO investigation -> inspector report -> prosecution/winding-up/Section 241/disgorgement -> penalties for obstruction or fraud.

A. Mega Integrated Case Study - The Investigation of Nova Bharat Textiles Limited

Facts

Nova Bharat Textiles Limited (NBTL), incorporated in 2014, files its financial statements with the Registrar. Its balance sheet shows unusually high receivables, related party advances, and a sudden fall in inventories. Several small shareholders, a creditor, and a whistleblower employee separately complain that the company has inflated profits, sold assets to promoter entities, and destroyed stock records.

- RoC scrutiny: On scrutiny of documents filed by NBTL and on information received from a creditor, the Registrar forms an opinion that further information/explanation/documents are necessary and issues written notice requiring reply within 30 days.
- Failure to reply: NBTL and its officers fail to furnish information within the specified time. The Registrar issues a further notice requiring production of books, papers and explanations at the RoC office.
- Past officers: The information relates to transactions done by two retired directors and a former CFO. The Registrar issues written notices to them also.
- Inquiry: A whistleblower alleges that NBTL is carrying on business for fraudulent and unlawful purposes and that investor grievances are not being addressed. After giving opportunity of being heard, the Registrar begins inquiry.
- Inspection: During inquiry, the Registrar/inspector makes copies of books and places identification marks. Officers are directed to produce documents and assist.
- Search and seizure: The Registrar reasonably believes that invoices, stock registers and e-mail printouts may be destroyed, altered or secreted. He approaches the Special Court, obtains an order, searches the premises and seizes records after allowing copies.
- Inspection report: After inspection/inquiry, the Registrar submits a written report to the Central Government/Regional Director recommending further investigation.
- CG investigation: The Central Government considers investigation necessary on the report of the Registrar. In a second branch of facts, shareholders pass a special resolution that the affairs ought to be investigated.
- Security: Before appointing inspectors on an applicant-triggered investigation, the Central Government asks for security based on turnover.
- SFIO assignment: The Central Government considers the matter serious and assigns investigation to SFIO on the Registrar report, in public interest, and on request of a government department.
- Parallel authorities: Income-tax authorities and police already have some information. Once the case is assigned to SFIO for Companies Act offences, other CG/SG investigating agencies do not continue that Companies Act investigation and relevant records are transferred to SFIO.
- Arrest and bail: An Assistant Director level SFIO officer, authorised by the Central Government, records reasons to believe that the promoter is guilty of Section 447 offence and arrests him. He is produced within 24 hours before the Special Court/JM/MM, excluding journey time.
- Disgorgement: The SFIO/interim or final report shows that a director received a luxury car and cash from a supplier due to fraudulent purchase orders. Central Government applies to the Tribunal for disgorgement and personal liability without limitation.
- NCLT investigation: Separately, 120 members holding 8 percent voting power apply to the Tribunal for investigation. In another company without share capital, one-fifth of members apply.
- Ownership investigation: The Central Government suspects that the real controllers of NBTL are hidden behind benami holdings and nominee structures. It appoints inspectors under Section 216.
- Inspector powers: The inspector examines officers on oath, calls for books, keeps them for 180 days, calls them again by written order, and seeks assistance from police/statutory authorities with prior approval.
- Employee protection: NBTL wants to suspend the whistleblower employee during the investigation. Since investigation/proceedings are pending, Tribunal approval is required; if no approval/objection is received within 30 days, action may proceed.

- Related companies: The inspector finds that the fraud flows through a subsidiary, a holding company nominee-controlled body corporate, and the managing director personally. With prior CG approval, he investigates related companies/persons under Section 219.
- Seizure by inspector: During investigation, the inspector himself reasonably believes documents will be mutilated/secreted and seizes them for purposes of investigation.
- Freezing assets: Creditors and the Central Government fear that funds and properties will be transferred to related entities. Application/reference is made to Tribunal to freeze assets for up to 3 years.
- Restrictions on securities: There is fear that shares will be transferred to hostile/benami holders. Tribunal imposes restrictions on securities for up to 3 years.
- Inspector report and action: Inspector submits interim and final reports. From the report, Central Government prosecutes offenders, presents a winding-up petition or Section 241 application, and brings proceedings for recovery of damages/property where public interest requires.
- Expenses: Expenses are first defrayed by the Central Government but later reimbursed by convicted persons, persons ordered to pay damages/restore property, companies receiving recovered property, or applicants/companies where no prosecution follows.
- Winding up not a shield: NBTL passes voluntary winding-up resolution and later a winding-up petition is pending. Investigation continues; directors/employees must still participate.
- Privilege: NBTL legal adviser is not required to disclose privileged communication, except name/address of client. Bankers need not disclose affairs of customers other than the investigated company/body corporate/person.
- False statements: An officer destroys documents, makes false entries and gives false explanations during inspection/inquiry/investigation. Section 229 triggers fraud punishment under Section 447.

Mega case trigger map

Case trigger	Provision	Exam answer / consequence
RoC needs further information after scrutiny/information	Section 206(1)	Written notice may require information, explanation or documents within reasonable time.
Company/officers receive notice	Section 206(2)	Duty to furnish information/explanation and produce documents to best of knowledge and power.
Past period transactions	Proviso to Section 206(2)	Past officers can also be called by written notice to furnish information/explanation.
No reply / inadequate reply / unsatisfactory state of affairs	Section 206(3)	Registrar may issue additional written notice for inspection of books, papers and explanations; reasons must be recorded in writing.
Fraud/unlawful purpose/non-compliance/investor grievances	Section 206(4)	Registrar may carry out inquiry after informing company of allegations by written order and giving reasonable opportunity of being heard.
CG satisfied circumstances warrant inspection	Section 206(5)/(6)	CG may direct inspection by inspector or authorise statutory authority.
Failure to furnish information/documents	Section 206(7)	Fine up to Rs. 1,00,000 plus Rs. 500 per day for continuing failure.
Inspector/RoC calls for books	Section 207(1)	Directors/officers/employees must produce documents, furnish information and render assistance.
Need copies/marks/civil court powers	Section 207(2)/(3)	RoC/inspector may copy books, mark identification and use civil court powers.
Director/officer disobeys direction	Section 207(4)	Imprisonment up to 1 year and fine Rs. 25,000 to Rs. 1,00,000; on conviction office vacated and disqualification from office in any company.
Inspection/inquiry complete	Section 208	Registrar/inspector submits written report to CG/RD and may recommend further investigation with reasons.
Risk of destruction/alteration/falsification/secreting	Section 209	Registrar/inspector may search/seize only after Special Court order; return within 180 days, recall further 180 days if needed.
CG orders investigation	Section 210	CG may investigate on Registrar/inspector report, special resolution or suo motu in public interest; shall investigate if court/Tribunal orders.
Applicant-triggered investigation	Section 210/214 + Rules	Security up to Rs. 25,000 may be required; refunded if investigation results in prosecution.
SFIO needed	Sections 211-212	CG may assign investigation to SFIO; Director SFIO designates inspectors.
Case assigned to SFIO	Section 212(2)	No other CG/SG investigating agency proceeds with Companies Act offence investigation; records transfer to SFIO.
Section 447 offence under SFIO	Section 212(6)-(10)	Cognizable and non-bailable; arrest by authorised Assistant Director or above with recorded reasons; produce within 24 hours.
Report says fraud and undue benefit	Section 212(14A) / 224(5)	CG may apply to Tribunal for disgorgement and personal liability without limitation.
Members seek NCLT investigation	Section 213	Company with share capital: 100 or more members or members holding 1/10th voting power. No share capital: at least 1/5th members.
Firm/body corporate proposed as inspector	Section 215	Not permitted. Inspector must be an individual/competent person, not firm/body corporate/association.
Hidden control/ownership/beneficial interest	Section 216	CG may investigate true financially interested persons, controllers/material influencers, and beneficial owners.
Inspector needs books/examination/foreign evidence	Section 217	Officers/employees/agents/former persons must assist; inspector has civil court powers and letter-of-request mechanism.
Employee punishment during investigation/proceedings	Section 218	Tribunal approval required before discharge, suspension, punishment or adverse employment change; no response within 30 days means action can proceed.
Related entity/person involved	Section 219	With prior CG approval, inspector may investigate related bodies corporate, subsidiaries/holding companies, nominee-controlled entities and MD/manager/employee.
Inspector seizes in investigation	Section 220	Inspector may seize likely-to-be-destroyed/altered/falsified/secreted books and return not later than conclusion of investigation.
Asset transfer likely prejudicial	Section 221	Tribunal may freeze transfer/removal/disposal of assets/funds/properties for period not exceeding 3 years.
Facts about securities cannot be found without restrictions	Section 222	Tribunal may restrict securities for period not exceeding 3 years.
Inspector final report	Section 223	Interim/final report to CG; copy may be obtained by members/creditors/affected persons; report admissible as evidence.
CG action on report	Section 224	Prosecution, winding-up petition, Section 241 application, recovery proceedings, disgorgement/personal liability.
Investigation expenses	Section 225	CG pays first; reimbursed by convicted/damages/restoration persons, recovering company/body corporate, or applicants/company as directed.
Winding up or Section 241 pending	Section 226	Investigation not stopped or suspended merely due to Section 241 application or winding up.
Legal adviser / banker asked to disclose	Section 227	Privilege protected except legal adviser must disclose client name/address; banker need not disclose affairs of other customers.
Foreign company	Section 228	Chapter XIV applies mutatis mutandis to foreign companies.
False statement or document destruction	Section 229	Punishable for fraud under Section 447.

What-if scenario matrix

What if...	Provision-wise answer
What if RoC only wants clarification from filings?	Section 206(1) notice is enough. It is a fact-finding step and starts with information/explanation/documents.
What if the company replies late?	RoC should consider the reply and provide reasonable opportunity before adverse show-cause action, as reflected in the module case law.
What if the information relates to transactions done by retired officers?	Past officers can be called through written notice under the proviso to Section 206(2).
What if RoC issues additional inspection notice?	Before notice under Section 206(3), reasons must be recorded in writing.
What if the Registrar suspects destruction of records but has no Special Court order?	Search/seizure under Section 209 is not valid without Special Court order.
What if books are seized for more than 180 days?	Under Section 209, return within 180 days; may be called again for a further 180 days by written order if needed.
What if investigation is ordered because shareholders passed a special resolution?	Under Section 210, CG may order investigation on intimation of special resolution; under Section 212, special resolution can also be a basis for SFIO assignment if CG considers SFIO necessary.
What if a court/Tribunal orders that affairs ought to be investigated?	Central Government shall order investigation under Section 210(2). This is mandatory.
What if SFIO misses the time mentioned in CG order?	As per module case law, Section 212(3) time reference is directory, not mandatory; investigation is not invalid merely for delay.
What if Income-tax/police has already started investigation?	If SFIO is assigned Companies Act offence investigation, other CG/SG agencies do not proceed with that Companies Act investigation and must transfer relevant records to SFIO.
What if accused is woman, under 16, sick or infirm?	Special Court may release on bail even though Section 447 offence is cognizable/non-bailable subject to Section 212 framework.
What if fraud report says director received undue benefit?	CG may seek disgorgement and personal liability without limitation under Section 212(14A) or Section 224(5).
What if a company has share capital and only 80 members apply?	Application under Section 213 may fail unless they hold at least 1/10th total voting power or other route applies.
What if company has no share capital?	At least 1/5th persons on the register of members may apply under Section 213.
What if a firm is named as inspector?	Section 215 prohibits appointment of firm/body corporate/association as inspector.
What if company wants to suspend whistleblower during investigation?	Section 218 approval of Tribunal required. If no approval/objection within 30 days, action may proceed.
What if company is in voluntary winding up?	Section 226 says investigation can still be initiated/continued and winding up does not absolve directors/employees.
What if officer tears records or gives false explanation?	Section 229 triggers fraud punishment under Section 447.

B. Section-wise Comprehensive Notes

1. Chapter XIV authority map - who can do what?

Authority	Main sections	Core powers
Registrar	206, 207, 208, 209	Call information, inspect books, conduct inquiry, exercise civil court powers, submit report, search/seize with Special Court order.
Inspector	206, 207, 208, 209, 216, 217, 219, 220, 223	Inspect/inquire/investigate, search/seize, investigate ownership, examine on oath, investigate related entities, submit report.
Central Government	206, 210, 211, 212, 216, 224, 225	Order inspection/investigation, establish SFIO, assign SFIO investigation, appoint inspectors, prosecute, seek winding up/Section 241/disgorgement, initially bear expenses.
Regional Director	206/208 delegated role	May receive inspection report; can sanction prosecution where punishment is below two years and forward other cases to CG.
Tribunal/NCLT	213, 218, 221, 222	Order investigation in other cases, approve/objection for employee action, freeze assets, impose securities restrictions.
Special Court	209, 212	Authorises search/seizure by Registrar/inspector and deals with prosecution/arrest/bail in SFIO-related offences.

2. Section 206 - Power to call information, inspect books and conduct inquiries

Stage	Trigger	Action / safeguard
206(1) written notice	On scrutiny of any filed document or any information received, Registrar thinks further information/explanation/documents necessary.	Registrar may require the company to furnish information/explanation in writing or produce documents within reasonable time.
206(2) duty	Company receives notice.	Company and concerned officers must furnish information/explanation to best of knowledge and power and produce documents within time or extended time.
Past officers	Information/explanation relates to past period.	Officers who were employed during that period can be called by written notice and must furnish information/explanation to best of knowledge.
206(3) further notice	No reply, inadequate reply, or unsatisfactory state of affairs/full and fair disclosure not found.	Registrar may call for further books/papers/explanations at specified place/time. Reasons must be recorded before notice.
206(4) inquiry	Information/representation shows fraudulent/unlawful purpose, non-compliance, or investor grievances not addressed.	Registrar may inform company of allegations by written order, give reasonable opportunity of being heard and carry out inquiry.
206(5) CG inspection	CG satisfied circumstances warrant.	CG may direct inspection of books and papers by inspector.
206(6) statutory authority	CG considers circumstances.	CG may authorise any statutory authority by general or special order to inspect books of account of company/class of companies.
206(7) failure	Company fails to furnish information/explanation or produce documents.	Company and every officer in default: fine up to Rs. 1,00,000 + Rs. 500 per day for continuing failure.

Exam trick: Section 206 begins with administrative fact-finding, but once inquiry under Section 206(4) is triggered, remember allegations + reasonable opportunity of being heard. For additional notice under Section 206(3), remember recorded reasons.

3. Section 207 - Conduct of inspection and inquiry

Point	Rule
Duty of directors/officers/employees	Produce documents, furnish statements/information/explanations in required form, and render all assistance.
Powers during inspection/inquiry	Make copies of books/account and other books/papers; place identification marks.
Civil court powers	Discovery and production of books/documents; summoning and enforcing attendance and examination on oath; inspection of books/registers/documents at any place.
Disobedience penalty	Director/officer disobeying direction: imprisonment up to 1 year and fine Rs. 25,000 to Rs. 1,00,000.
Conviction consequence	Convicted director/officer is deemed to have vacated office from conviction date and is disqualified from holding office in any company.

4. Section 208 - Report on inspection made

- After inspection of books of account or inquiry under Section 206 and other books/papers under Section 207, Registrar/inspector submits written report to the Central Government.
- Report may recommend further investigation, but reasons must support such recommendation.
- As per module note, report is submitted to Regional Director under delegated powers. If punishment is less than two years, RD can sanction launching prosecution; otherwise report is forwarded to CG for sanctioning prosecution.

5. Section 209 - Search and seizure by Registrar or inspector

Element	Provision
Reasonable ground	Registrar/inspector believes books/papers of company or relating to KMP/director/auditor/PCS are likely to be destroyed, mutilated, altered, falsified or secreted.
Special Court order	Search and seizure requires order of Special Court. Without such order, seizure is not authorised.
Power after order	Enter/search places where books/papers are kept and seize necessary books/papers after allowing company to take copies/extracts at cost.
Return period	Return as soon as may be and in any case not later than 180th day after seizure.
Further period	Books/papers may be called again for further 180 days by written order if needed.
Before return	Registrar/inspector may take copies/extracts, place identification marks or deal with them as necessary.
CrPC	Search/seizure provisions of CrPC apply mutatis mutandis.

6. Section 210 - Investigation into affairs of company

How CG investigation starts	Nature of power / answer
Receipt of Registrar/inspector report under Section 208	CG may order investigation if it considers necessary.
Intimation of special resolution passed by company that affairs ought to be investigated	CG may order investigation; test question answer says CG power is discretionary where company requests via special resolution.

Suo motu in public interest	CG may order investigation on its own opinion in public interest.
Court/Tribunal order that affairs ought to be investigated	CG shall order investigation. This is mandatory.
Appointment of inspectors	CG may appoint one or more persons as inspectors to investigate and report in directed manner.

Security under Section 210/214 and Rules

Turnover as per previous year balance sheet	Security amount
Up to Rs. 50 crore	Rs. 10,000
More than Rs. 50 crore and up to Rs. 200 crore	Rs. 15,000
More than Rs. 200 crore	Rs. 25,000

Security may be required before appointing inspector in applicant-triggered cases and is refunded if investigation results in prosecution.

7. Section 211 - Serious Fraud Investigation Office (SFIO)

Point	Rule
Establishment	Central Government shall establish SFIO by notification to investigate frauds relating to a company.
Continuation of earlier SFIO	Earlier SFIO set up under Government Resolution is deemed SFIO until new establishment.
Head	SFIO headed by a Director appointed by CG, not below rank of Joint Secretary to Government of India, with knowledge/experience in corporate affairs.
Experts	Experts from banking, corporate affairs, taxation, forensic audit, capital market, information technology, law, investigation and other prescribed fields.
Rules add fields	Investigations, cyber forensics, financial accounting, management accounting, cost accounting and other necessary fields.
Service terms	Terms of Director, experts, officers and employees as prescribed.

8. Section 212 - Investigation by SFIO

Step	Exam-ready rule
Basis for assignment	CG may assign investigation to SFIO on Registrar/inspector report under Section 208, intimation of special resolution, public interest, or request from any department of CG/SG.
Designation of inspectors	On order, Director SFIO may designate necessary inspectors.
No parallel Companies Act investigation	When assigned to SFIO, no other CG/SG investigating agency proceeds in respect of offence under Companies Act; existing agency transfers records to SFIO.
Procedure/report	SFIO conducts investigation under Chapter XIV and submits report to CG within period specified in order.
Investigating officer powers	Investigating Officer has powers of inspector under Section 217.
Company/officer/employee duty	Present and past officers/employees must provide information, explanation, documents and assistance required.
Section 447 offences	Cognizable and non-bailable; bail only after public prosecutor opportunity and court satisfaction; woman/under 16/sick/infirm may be released by Special Court.
Cognizance	Special Court takes cognizance only on written complaint by Director SFIO or authorised CG officer.
Arrest	Officer not below Assistant Director, authorised by CG, may arrest with recorded reasons to believe and inform grounds.
Post-arrest	Copy of order and material to SFIO in sealed envelope; arrested person produced within 24 hours excluding journey time.
Interim/final report	SFIO submits interim report if CG directs and final investigation report on completion.
Report copy	Concerned person may obtain copy by application to court.
Prosecution	CG may direct SFIO to initiate prosecution after examining report and legal advice.
Disgorgement	If report states fraud and undue advantage/benefit, CG may apply to Tribunal for disgorgement and personal liability without limitation.
Report as police report	Investigation report filed with Special Court for framing charges is deemed report by police officer under CrPC Section 173.
Information sharing	Other agencies must provide information/documents to SFIO; SFIO may share relevant information with them for other offences/matters.

9. Section 213 - Investigation into company affairs in other cases

Applicant / basis	Threshold / condition	Tribunal action
Company having share capital	100 or more members, or members holding at least 1/10th total voting power.	Tribunal may order investigation after reasonable opportunity of being heard.
Company without share capital	Not less than 1/5th persons on register of members.	Tribunal may order investigation.
Any other person or otherwise	Circumstances suggest fraudulent/unlawful purpose, oppression, fraud/misfeasance/misconduct in formation/management, or members not given expected information including commission calculation.	Tribunal may order investigation if evidence supports good reasons.
After investigation fraud proved	Business conducted to defraud/unlawful/fraudulent purpose or persons in formation/management guilty of fraud.	Officer in default and concerned persons punishable for fraud under Section 447.

10. Sections 214 to 216 - Security, inspector eligibility and ownership investigation

Section	Core rule	Exam trigger
214 - Security for costs	CG may require security not exceeding Rs. 25,000 before appointing inspector in Section 210(1)(b) or Section 213 cases. Security refunded if investigation results in prosecution.	Application-based investigation; remember refund if prosecution.
215 - No firm/body corporate/association as inspector	Only competent individual persons can be appointed as inspectors.	Question names a firm/LLP/company as inspector.
216 - Investigation of ownership	CG may appoint inspectors to determine true persons financially interested in success/failure, controlling/materially influencing policy, or having/had beneficial interest in shares.	Hidden controllers, benami holdings, nominees, takeover by unknown group.

11. Section 217 - Procedure, powers etc. of inspectors

Area	Rule
Duties of officers/employees/agents/former persons	Preserve and produce books/papers and give all reasonable assistance.
Other body corporate	Inspector may require relevant information/books from any other body corporate where necessary for investigation.
Custody period	Books/papers produced cannot be kept more than 180 days; may be called again for further 180 days by written order.
Examination on oath	Inspector may examine specified persons; any other person with prior CG approval. In SFIO investigation, Director SFIO approval is sufficient.
Civil court powers	Discovery/production, summoning/enforcing attendance/examination on oath, inspection of books/registers/documents.
Director/officer disobeys direction	Imprisonment up to 1 year and fine Rs. 25,000 to Rs. 1,00,000; conviction leads to vacation and disqualification.
Notes of examination	Taken down in writing, read over/by and signed by examined person; may be used as evidence.
Refusal/failure	Failure/refusal to produce books, furnish information, appear/answer, or sign notes: imprisonment up to 6 months + fine Rs. 25,000 to Rs. 1,00,000 + Rs. 2,000 per day continuing.
Assistance	Officers of CG/SG/police/statutory authority must assist inspector with prior CG approval.
Reciprocal arrangements	CG may enter into agreements with foreign states and use letter of request mechanism for overseas evidence.

12. Section 218 - Protection of employees during investigation

- Purpose: to protect employees who may assist/disclose information during investigation from retaliation.
- Where investigation under Sections 210, 212, 213 or 219, ownership/membership investigation under Section 216, or Chapter XVI proceedings are pending, company/body corporate/person must obtain Tribunal approval before discharge, suspension, dismissal, removal, reduction in rank or adverse change in employment terms.
- If no Tribunal approval/objection is received within 30 days from application, company may proceed with proposed action.
- If dissatisfied with Tribunal objection, appeal to NCLAT within 30 days of receipt of objection notice. NCLAT decision is final and binding.

13. Sections 219 and 220 - Related companies and seizure by inspector

Section	What inspector can do	Key conditions
219 - related entities/persons	Investigate affairs of subsidiary, holding company, subsidiary of holding company, body corporate managed by same MD/manager, nominee-controlled body corporate, or MD/manager/employee.	Inspector appointed under Section 210/212/213 must consider it necessary and obtain prior CG approval; report only so far as relevant.
220 - seizure by inspector	If inspector has reasonable grounds to believe books/papers relating to company/other body corporate/MD/manager likely to be destroyed/mutilated/altered/falsified/secreted, he may enter and seize after allowing copies/extracts at cost.	Keep only up to conclusion of investigation; may take copies/extracts/marks; CrPC search/seizure provisions apply mutatis mutandis.

14. Sections 221 and 222 - Powers of Tribunal during inquiry/investigation

Provision	Who can trigger	Order and period	Penalty for contravention
221 - freezing of assets	Reference by CG, inquiry/investigation, complaint by Section 244(1) members, creditor with Rs. 1 lakh outstanding, or any person with reasonable ground.	Tribunal may restrict removal/transfer/disposal of funds/assets/properties for period not exceeding 3 years, or allow subject to conditions.	Company: fine Rs. 1,00,000 to Rs. 25,00,000. Officer in default: imprisonment up to 3 years or fine Rs. 50,000 to Rs. 5,00,000 or both.
222 - restrictions on securities	Investigation under Section 216 or complaint by any person where facts about securities cannot be found without restrictions.	Tribunal may impose restrictions on securities issued/to be issued for period not exceeding 3 years.	Company: fine Rs. 1,00,000 to Rs. 25,00,000. Officer in default: imprisonment up to 6 months or fine Rs. 25,000 to Rs. 5,00,000 or both.

15. Sections 223 and 224 - Inspector report and action on report

Area	Rule
Interim/final report	Inspector may submit interim reports and shall submit final report on conclusion; if CG directs, interim report is mandatory.
Form	Report shall be in writing or printed as CG directs.
Copy	Members, creditors or any person whose interest is likely to be affected may obtain copy by application to CG.
Authentication/evidence	Authenticated by company seal or public officer certificate; admissible as evidence in legal proceedings.
Exception	Section 223 does not apply to SFIO report under Section 212.
Prosecution	If report shows person guilty of offence, CG may prosecute; company officers/employees must assist.
Winding up / Section 241	If company/body corporate liable to be wound up and circumstances justify, CG may cause petition for winding up, Section 241 application, or both.
Recovery proceedings	If public interest requires recovery of damages/property, CG may itself bring proceedings in name of company/body corporate.
Disgorgement/personal liability	If report states fraud and undue benefit, CG may apply to Tribunal for disgorgement and personal liability without limitation.

16. Sections 225 to 229 - Closing provisions

Section	Rule	Exam memory
225 - expenses	Investigation expenses are first defrayed by CG, then reimbursed by convicted persons/persons ordered to pay damages/restore property, companies/body corporates benefiting from recovery, or applicants/company as CG directs where no prosecution follows.	CG pays first but may recover later; amount may be first charge on sums/property.
226 - winding up not to stop investigation	Investigation may start/continue despite Section 241 application, voluntary winding up resolution, or winding-up proceeding pending before Tribunal.	Winding-up is not an escape route; director/employee liability continues.
227 - legal advisers and bankers	Privileged communication of legal adviser protected except client name/address; bankers need not disclose affairs of customers other than investigated company/body corporate/person.	Privilege exception question.

228 - foreign companies	Chapter XIV applies mutatis mutandis to inspection, inquiry or investigation of foreign companies.	Foreign company also covered.
229 - false statement/mutilation/destruction	Person required to explain/make statement or officer/employee of company/body corporate under investigation is punishable for fraud under Section 447 if he destroys/mutilates/falsifies/conceals/tampers/removes documents, makes false entry or gives false explanation knowingly.	Highest severity: fraud punishment.

C. Dedicated Penalties and Consequences Section

Section	Default / trigger	Who is liable	Penalty / consequence
206(7)	Failure to furnish information/explanation or produce documents required under Section 206.	Company and every officer in default.	Fine up to Rs. 1,00,000; continuing failure: additional fine up to Rs. 500 per day after first day.
207(4)	Disobeying direction issued by Registrar/inspector during inspection/inquiry.	Director or officer of company.	Imprisonment up to 1 year and fine Rs. 25,000 to Rs. 1,00,000. On conviction, deemed vacation of office and disqualified from holding office in any company.
217(6)	Director/officer disobeys direction issued by inspector/Registrar under Section 217.	Director/officer.	Imprisonment up to 1 year and fine Rs. 25,000 to Rs. 1,00,000; conviction leads to vacation/disqualification.
217(8)	Failure/refusal without reasonable cause to produce books/papers, furnish information, appear/answer, or sign examination notes.	Any person so required.	Imprisonment up to 6 months + fine Rs. 25,000 to Rs. 1,00,000 + further fine up to Rs. 2,000 per day for continuing failure/refusal.
221(2)	Removal/transfer/disposal of funds/assets/properties in contravention of Tribunal freeze order.	Company and officers in default.	Company: fine Rs. 1,00,000 to Rs. 25,00,000. Officer: imprisonment up to 3 years or fine Rs. 50,000 to Rs. 5,00,000 or both.
222(2)	Issue/transfer/acting upon securities in contravention of Tribunal restriction order.	Company and officers in default.	Company: fine Rs. 1,00,000 to Rs. 25,00,000. Officer: imprisonment up to 6 months or fine Rs. 25,000 to Rs. 5,00,000 or both.
229	Destroying/mutilating/falsifying/concealing/tampering/unauthorised removal of documents; false entry; false explanation during inspection/inquiry/investigation.	Person required to explain/make statement; officer/employee of company/body corporate under investigation.	Punishable for fraud under Section 447.
212(6)	Offence covered under Section 447 during SFIO investigation.	Accused person.	Cognizable and non-bailable; bail restrictions apply; woman/under 16/sick/infirm may be released if Special Court directs.
212(8)-(10)	Arrest in SFIO investigation.	Person believed guilty of Section 447 offence.	Arrest by authorised officer not below Assistant Director with recorded reasons; grounds informed; copy/material sent to SFIO; produce within 24 hours excluding journey time.
213 final limb	After investigation under Section 213, fraud/fraudulent/unlawful purpose proved.	Officer in default and persons concerned in formation/management.	Punishable for fraud under Section 447.

Penalty mnemonics

- 206 = Reply failure: Rs. 1 lakh + Rs. 500/day.
- 207/217 disobedience by director/officer = up to 1 year + Rs. 25k to Rs. 1 lakh + office vacation/disqualification on conviction.
- 217(8) refusal by any person = up to 6 months + Rs. 25k to Rs. 1 lakh + Rs. 2k/day.
- 221 asset freeze violation is more serious for officers: up to 3 years.
- 222 securities restriction violation: officer imprisonment up to 6 months.
- 229 false/mutilated records = Section 447 fraud punishment.

D. Must-Do Important Points and Exam Traps

Important point	Exam use
CG may direct inspection of books by inspector or other statutory authority.	Remember Section 206(5)/(6).
RoC and inspector have civil court powers during inquiry/inspection.	Discovery/production, summons/oath, inspection.
Special Court order is compulsory for Section 209 search/seizure.	Without it, seizure invalid.
Seized books under Section 209 must be returned within 180 days; recall possible for further 180 days.	Very common MCQ.
For Section 213 NCLT investigation: share capital company needs 100 members or 1/10th voting power; no-share-capital company needs 1/5th members.	Do not confuse with Section 244 oppression thresholds.
Security amount under Rules: Rs. 10,000 / Rs. 15,000 / Rs. 25,000 based on turnover slabs.	Refunded if prosecution follows.
SFIO consists of Director, experts, officers and employees appointed by CG.	Director not below Joint Secretary rank.
Assets may be frozen for up to 3 years.	Section 221.
Restrictions on securities may be imposed for up to 3 years.	Section 222.
Reasonable opportunity of being heard is key for inquiry/investigation where specified.	Especially Section 206(4) and Section 213.
Section 212(2) gives SFIO priority over other CG/SG investigating agencies for Companies Act offences.	Case-booklet answer: SFIO proceeds, Income-tax authorities keep Companies Act investigation on hold/transfer relevant records.
Voluntary winding up does not stop investigation.	Section 226.

Common traps

Trap	Correct position
Trap: CG must investigate whenever company passes special resolution.	Safer answer as per Section 210(1): CG may order investigation when it is of opinion it is necessary; court/Tribunal order makes it mandatory.
Trap: Registrar can seize records immediately if he suspects destruction.	No. Section 209 requires Special Court order.
Trap: SFIO and Income-tax authorities continue parallel investigations under Companies Act.	No. Section 212(2) stops other CG/SG agencies for Companies Act offences once SFIO assignment is made.
Trap: SFIO report is same as Section 223 inspector report.	No. Section 223(5) excludes Section 212 report.
Trap: Winding up ends investigation.	No. Investigation continues and directors/employees remain liable.
Trap: Legal advisers must disclose all client communications.	No. Privileged communication protected except name/address of client.
Trap: Every false reply is only minor penalty.	If false explanation/document destruction falls under Section 229, fraud punishment under Section 447 applies.

E. Case Scenario Booklet Digest - Chapter 4 Relevant Questions

Case Scenario 26 - Shri Hari Textiles Limited

Facts in one line: RoC scrutinises financial statements, issues notice, company defaults, RoC conducts inquiry/inspection, seizes documents with Special Court order, past directors are called, report goes to CG, CG assigns investigation to SFIO, and Income-tax authorities have already initiated investigation.

Q	Question focus	Correct answer	Reason
1	Company and officials failed to reply to RoC notice. What fine can be imposed?	Option (a). Company and every defaulting officer: fine up to Rs. 1,00,000; continuing failure: additional fine up to Rs. 500 per day after first day.	Section 206(7).
2	Registrar seized documents during inquiry. What procedure follows after inspection?	Option (c). Registrar must return documents to company after making copies/extracts or identification marks if necessary.	Section 209(2): return within 180 days; recall for further 180 days by written order.
3	Board increased total directors/MD/WTD remuneration to 12 percent of net profits. Requirement?	Option (c). Board resolution must be authorised at general meeting subject to Schedule V.	First proviso to Section 197(1). This is Chapter 2 overlap included because case booklet mixes provisions.
4	Can RoC call ex-directors Alex and Disouza for information on past dealings?	Option (b). Ex-directors are bound to respond to RoC notice seeking requisite information.	Section 206(1) and proviso to Section 206(2). Past officers can be called for past-period information.
5	SFIO discovers Income-tax authorities already initiated investigation. What happens?	Option (c). SFIO proceeds; Income-tax authorities keep relevant Companies Act investigation on hold/transfer records.	Section 212(2). Once assigned to SFIO, no other CG/SG investigating agency proceeds for Companies Act offence.

ICAI module Test Your Knowledge - MCQ digest

Scenario	Answer / reasoning
Ravi Share-brokers Ltd passed special resolution that affairs ought to be investigated and submitted it to CG.	Best answer in module: CG power on special resolution route is discretionary; it may or may not order investigation. Court/Tribunal order route is mandatory.
Sanchita Tech Mart Ltd fears its shares may be cornered by unscrupulous persons causing prejudicial change in Board.	Make application to NCLT under Section 222 for imposition of restrictions on securities.
CG receives inspector report under Section 223 and action is required.	CG may cause presentation to Tribunal of winding-up petition on just and equitable ground or application under Section 241, or both.
Royal Cement Ltd investigation may be assigned to SFIO on report, public interest, government request plus one more basis.	On intimation of special resolution passed by company that its affairs are required to be investigated.

Practice descriptive questions with answers

Explain the sequence from RoC notice to inspection report.

RoC may call information under Section 206(1), company/officers must reply under 206(2), past officers may also be called, further notice/inspection may be issued under 206(3) after recording reasons, inquiry can be carried out under 206(4) after allegations and hearing, inspection/inquiry powers under 207 are used, and report is submitted under Section 208 with recommendation for further investigation if needed.

When can search and seizure be done?

Under Section 209, if Registrar/inspector has reasonable ground to believe books/papers of company or relating to KMP/director/auditor/PCS are likely to be destroyed, mutilated, altered, falsified or secreted, he may search/seize only after Special Court order, allowing copies/extracts at company cost.

State the bases for SFIO investigation.

CG may assign investigation to SFIO under Section 212 on receipt of Registrar/inspector report under Section 208, on intimation of special resolution by company, in public interest, or on request from any CG/SG department, if it considers SFIO investigation necessary.

What are the consequences of SFIO assignment?

Director SFIO designates inspectors; no other CG/SG investigating agency continues Companies Act offence investigation; relevant documents/records are transferred to SFIO; company/officers/employees assist; SFIO reports to CG; CG may direct prosecution/disgorgement.

Who can apply to Tribunal for investigation under Section 213?

In a share-capital company: 100 or more members or members holding at least 1/10th total voting power. In a no-share-capital company: at least 1/5th persons on register. Tribunal may also act on application by any other person or otherwise where circumstances and evidence suggest fraud, unlawful purpose, oppression, misconduct or withholding expected information.

Differentiate Section 209 and Section 220 seizure.

Section 209 is search/seizure by Registrar/inspector requiring Special Court order and return within 180 days with possible recall. Section 220 is seizure by inspector during investigation where books/papers are likely to be destroyed/mutilated/altered/falsified/secreted; inspector keeps them only up to conclusion of investigation and returns thereafter.

F. Last-Day Revision Charts

One-page chronology

Step	Section	Action
1	Section 206(1)	RoC calls for information/explanation/documents.
2	Section 206(2)	Company/officers and past officers comply.
3	Section 206(3)	Further notice/inspection if no/inadequate reply or unsatisfactory state of affairs.
4	Section 206(4)	Inquiry for fraud/unlawful purpose/non-compliance/investor grievances after allegations and hearing.
5	Section 207	Inspection/inquiry duties and civil court powers.
6	Section 208	Report to CG/RD; recommendation for further investigation with reasons.
7	Section 209	Special Court-backed search/seizure where records may be destroyed/altered/falsified/secreted.
8	Section 210/213	CG/Tribunal investigation routes.
9	Section 211/212	SFIO establishment and investigation route.
10	Section 217/219/220	Inspector powers, related companies, seizure by inspector.
11	Section 221/222	Tribunal freezes assets or restricts securities.
12	Section 223/224	Inspector report and CG action: prosecution, winding up, Section 241, recovery, disgorgement.
13	Section 225-229	Expenses, winding up not stop, privilege, foreign companies, false statements/doc destruction.

Numbers to memorise

Number	Where used
30 days	Tribunal approval/objection under Section 218; if no response, action against employee may proceed. Appeal to NCLAT also within 30 days.
180 days	Return seized books under Section 209; inspector custody under Section 217 for produced books; recall possible for further 180 days.
24 hours	Arrested person under SFIO Section 212 to be taken to Special Court/JM/MM, excluding journey time.
3 years	Maximum period for freezing assets under Section 221 and restrictions on securities under Section 222.
Rs. 1 lakh	Creditor outstanding threshold to trigger Section 221 asset freeze complaint; also common minimum/maximum in penalties.
Rs. 25,000	Maximum security amount for investigation costs; also common minimum fine for disobedience/refusal.
100 members / 1/10th voting power / 1/5th no-share-capital	Threshold under Section 213 for Tribunal investigation.

Answer-writing templates

RoC notice/inquiry answer

State Section 206(1) trigger -> duty under 206(2) -> past officer duty if relevant -> 206(3) further notice with recorded reasons -> 206(4) inquiry with allegations and hearing -> penalty under 206(7) if failure.

Search/seizure answer

Identify reasonable belief that records may be destroyed etc. -> Special Court order required -> enter/search/seize -> allow copies -> return within 180 days -> possible recall for 180 days -> CrPC applies.

SFIO answer

Mention Section 212 bases -> CG order -> Director SFIO designates inspectors -> other agencies stop/transfer records -> company/officers assist -> cognizable/non-bailable if Section 447 -> arrest/bail/prosecution/report/disgorgement as applicable.

NCLT investigation answer

State Section 213 threshold -> reasonable opportunity -> grounds such as fraud/unlawful purpose/oppression/misconduct/withholding information -> CG appoints inspectors if Tribunal orders -> fraud punishment under Section 447 if proved.

Penalty answer

Always identify section, default, liable person, penalty and consequence. If facts involve document destruction/false explanation, jump to Section 229 and Section 447 fraud punishment.

G. Final Rapid Revision - 40 Questions to Self-Test

- Who can issue first notice for information under Section 206(1)?
- Can past officers be called for information relating to past periods?
- When must Registrar record reasons in writing under Section 206?
- When is reasonable opportunity of being heard required in Section 206?
- What is the penalty for failure to furnish information under Section 206(7)?
- What civil court powers do Registrar/inspector have under Section 207?
- What happens to a director convicted under Section 207/217 disobedience?
- What report is submitted under Section 208?
- Which court order is required for Section 209 seizure?
- Within how many days must Section 209 seized books be returned?
- What are three bases for CG investigation under Section 210(1)?

- When is CG investigation mandatory under Section 210(2)?
- What are the turnover slabs for security deposit?
- Who heads SFIO and what is minimum rank?
- List four fields of SFIO experts.
- What are four bases for assigning investigation to SFIO?
- What happens to other CG/SG investigations after SFIO assignment?
- What type of offences under Section 447 are considered under Section 212(6)?
- Who can arrest under Section 212?
- Within what time must arrested person be produced?
- How can a person concerned get copy of SFIO report?
- What is disgorgement under Section 212(14A)/224(5)?
- What are Section 213 member thresholds?
- Can a firm be appointed inspector?
- Why is Section 216 used?
- For how long can inspector keep books produced under Section 217?
- What is the penalty under Section 217(8)?
- What protection does Section 218 give employees?
- What happens if Tribunal does not respond within 30 days in Section 218?
- Which related entities can be investigated under Section 219?
- How is Section 220 seizure different from Section 209 seizure?
- For how long can assets be frozen under Section 221?
- What is penalty for contravention of Section 221 order?
- For how long can securities restrictions be imposed under Section 222?
- What is penalty for contravention of Section 222 order?
- Who may obtain copy of inspector report under Section 223?
- What actions can CG take under Section 224?
- Who reimburses investigation expenses under Section 225?
- Does winding up stop investigation?
- What conduct triggers Section 229 fraud punishment?

End of Chapter 4 notes.

Chapter 5 - Compromises, Arrangements and Amalgamations

Comprehensive exam-oriented Word notes with mega case study, penalties, what-if triggers, and case-booklet questions

Source discipline: Prepared only from the uploaded material: ICAI Chapter 5 module, Case Scenario Booklet, SPOM Set A All Important Points PDF, and Hemant Somani SPOM Law notes. No online or external source has been used.

How to use these Chapter 5 notes

- Read the mega case first. It connects Sections 230 to 240 into one business restructuring story so that the procedural sequence becomes memorable.
- Then revise the section-wise tables. This chapter is number-heavy: 30 days, 1 month, 2 months, 4 months, 60 days, 90%, 75%, 9/10th, and 1 year.
- Use the penalties section separately before exams. Chapter 5 has fewer penalties than Chapter 4, but the small penalty provisions are frequent MCQ traps.
- Solve the case-booklet digest at the end. Answers are placed immediately below each question for fast revision.

Core mental model: Chapter 5 is not just merger law. It covers (1) compromise/arrangement with creditors or members, (2) NCLT-sanctioned mergers/demergers/reconstructions, (3) fast track mergers, (4) cross-border mergers, (5) squeeze-out of dissenting/minority shareholders, (6) public-interest amalgamation by CG, and (7) preservation/liability after merger.

A. Mega Integrated Case Study - The Full Restructuring of Sunrise Group

Facts

Sunrise Foods Limited (SFL), a listed company, has accumulated reserves, a stressed debt profile, and multiple subsidiaries. Its board wants to restructure the group through a combination of arrangement, merger, fast-track merger, acquisition of dissenting shareholders, cross-border merger, and eventual preservation of books. The group has the following entities:

- Sunrise Foods Limited (SFL): listed Indian company and parent entity.
- Sunrise Snacks Private Limited (SSPL): wholly owned subsidiary of SFL.
- Moon Beverages Limited (MBL): unlisted competitor proposed to merge into SFL.
- EuroTaste GmbH: foreign company proposed to merge with an Indian company.
- Minority shareholders: 8 percent shareholders who resist the transfer of shares.
- Creditors: secured and unsecured lenders asked to approve a debt restructuring arrangement.

Stage	Provision trigger and memory point
1. Arrangement with creditors	SFL proposes that secured creditors accept extended repayment and partial conversion of debt into securities. This is an arrangement/compromise under Section 230 because rights are being modified and concessions are being sought.
2. Application to Tribunal	SFL, its creditor, member, or liquidator in voluntary liquidation may apply to the Tribunal for meetings of creditors/members or their classes.
3. Disclosure affidavit	The applicant discloses material facts: latest financial position, latest auditor report, pending investigation/proceedings, reduction of share capital if any, and CDR details if applicable.
4. CDR trigger	Because secured creditors are involved, if the scheme is corporate debt restructuring consented to by not less than 75 percent secured creditors in value, it must include creditor responsibility statement, safeguards, auditor liquidity report, RBI guideline statement if adopted, and registered valuer valuation report.
5. Notice of meeting	Notice goes individually to creditors/members/debenture-holders, and also to regulators such as CG, IT authorities, RBI, SEBI, RoC, stock exchanges, OL, CCI if necessary, and other affected sectoral regulators.
6. Voting and objection	Persons may vote in person, through proxy, or by postal ballot within one month of receipt of notice. Objection is allowed only by persons holding at least 10 percent shareholding or at least 5 percent total outstanding debt.
7. Approval threshold	The scheme needs majority in number AND 3/4th in value of creditors/members present and voting, followed by Tribunal sanction. Abstentions are not counted as votes for this test.
8. Dispensation of creditors meeting	If creditors/class of creditors having at least 90 percent value agree and confirm by affidavit, Tribunal may dispense with calling their meeting.
9. Tribunal order	The order may protect creditors, deal with conversion of preference shares, variation of shareholders rights, exit offer to dissenting shareholders, and other matters needed for implementation. It must be filed with RoC within 30 days of receipt.
10. Enforcing the scheme	If implementation becomes difficult, Tribunal can supervise, give directions, modify the arrangement, or order winding up if the scheme cannot be satisfactorily implemented and the company cannot pay debts as per the scheme.
11. Normal merger under Section 232	MBL is proposed to merge into SFL. Draft scheme is adopted by directors, filed with RoC, accompanied by director report explaining effect on shareholders/KMP/promoters/non-promoters, share exchange ratio, valuation report, and supplementary accounting statement where needed.
12. Auditor certificate	No compromise/arrangement/merger is sanctioned unless auditor certificate confirms that accounting treatment in the scheme is in conformity with Section 133 accounting standards.
13. Listed into unlisted what-if	If transferor is listed and transferee is unlisted, transferee remains unlisted until it becomes listed. Transferor shareholders who opt out must be paid not less than the SEBI-specified price/valuation.
14. Appointed date	The scheme must clearly indicate an appointed date. It becomes effective from that appointed date, not from a later date such as RoC registration, unless the scheme provides accordingly.
15. Annual compliance statement	Until completion, every company in relation to which the order is made files annual statement with RoC, certified by CA/CMA/CS in practice, indicating compliance with Tribunal order.
16. Treasury stock prohibition	Transferee company cannot, due to the compromise/arrangement, hold shares in its own name or through trust/subsidiary/associate. Such shares must be cancelled/extinguished.
17. Fast track merger	SFL considers merging its WOS SSPL through Section 233. Fast track route is available for holding company and wholly owned subsidiary, two or more small companies, and prescribed classes. It is optional, not compulsory.

18. Fast track creditor approval	Scheme is approved by members holding at least 90 percent of total number of shares and by creditors/class of creditors representing 9/10th in value, after 21 days notice.
19. RD/CG objection	If Central Government/RD, after considering RoC/OL objections, believes the scheme is not in public interest or creditors interest, it may apply to Tribunal within prescribed time; Tribunal may follow normal merger procedure or confirm the scheme.
20. Cross-border merger	EuroTaste GmbH can merge with an Indian company only with prior RBI approval and compliance with Sections 230 to 232 and relevant rules. Consideration may be cash, depository receipts, or partly both.
21. Dissenting shareholders under Section 235	A transferee company making an offer to acquire shares can acquire dissenting shareholders if holders of not less than 9/10th in value approve within four months. Notice to acquire remaining shares is sent within two months after expiry of those four months.
22. Dissenting shareholder remedy	A dissenting shareholder may apply to Tribunal within one month of notice. Unless Tribunal orders otherwise, transferee is entitled and bound to acquire on the same terms.
23. Minority purchase under Section 236	If acquirer/persons acting in concert become 90 percent or more registered holders of issued equity share capital, they must notify the company of intention to buy remaining equity shares. Minority may also offer to sell to majority.
24. Minority payment mechanics	Majority deposits the value in a separate bank account operated by the company for at least one year. Company acts as transfer agent. Payment is disbursed within 60 days, with continuing disbursement for those not paid/claiming within one year.
25. Higher price what-if	If shareholders holding 75 percent or more of minority equity shareholding negotiate a higher price before transfer without disclosure, majority shareholders share additional compensation with all minority shareholders pro rata.
26. Public interest amalgamation	If CG considers amalgamation of two or more companies essential in public interest, it may order amalgamation by notification in Official Gazette, preserving interests/rights as nearly as possible and compensating diminution.
27. Offer circular registration	Any circular relating to an offer under Section 235 must be presented to RoC for registration before issue; otherwise the director issuing it attracts penalty.
28. Books and liability after merger	Books and papers of amalgamated/acquired company cannot be disposed of without prior CG permission. Officers remain liable for pre-merger Companies Act offences even after merger/amalgamation/acquisition.

If this had happened, which provision would be triggered?

What-if fact	Triggered provision
Creditors agree to waive 30 percent and extend time	Section 230 compromise/arrangement with creditors.
Members rights are reorganised by consolidation/division of shares	Arrangement under Section 230 explanation.
Scheme includes reduction of share capital	Disclose in Section 230 affidavit; separate Section 66 compliance is not needed if reduction happens under Section 230 order.
Buy-back is embedded in scheme	Tribunal cannot sanction unless buy-back complies with Section 68.
Listed company takeover through scheme	Section 230 takeover offer subject to SEBI regulations.
Aggrieved party complains about takeover offer of unlisted company	Application to Tribunal under Section 230(12).
Scheme cannot be implemented and company cannot pay scheme debts	Tribunal may order winding up under Section 231; deemed order under Section 273.
Merger transfers whole undertaking/property/liabilities	Section 232 merger/amalgamation order.
Last annual accounts are older than 6 months before first scheme meeting	Supplementary accounting statement must be circulated under Section 232(2).
Transferor listed company merges into unlisted transferee	Section 232(3)(h): transferee remains unlisted; opt-out shareholders get SEBI floor price/valuation.
Transferee would hold shares in itself after merger	Prohibited; shares to be cancelled/extinguished.
Holding company merges with WOS	Section 233 fast track route may be used; optional.
Foreign company merges into Indian company	Section 234: prior RBI approval + Sections 230 to 232 compliance.
Offer accepted by 9/10th in value within 4 months; dissenters remain	Section 235 compulsory acquisition process.
Acquirer reaches 90 percent issued equity share capital	Section 236 minority purchase offer at registered valuer price.
CG says merger is essential in public interest	Section 237 public interest amalgamation by CG order.
Director sends unregistered takeover circular	Section 238 penalty of Rs. 1 lakh on the director.
Company wants to destroy old books of transferor company	Section 239 prior CG permission required.
Ex-director says pre-merger offences are wiped out	Section 240: liability continues.

B. Core Concepts and Definitions

Term	Exam meaning
Compromise	Peaceful or willing settlement of a dispute by mutual adjustments/concessions. It assumes a dispute; each side yields something.
Arrangement	No dispute is necessary. It modifies rights and is very wide; includes reorganisation of share capital by consolidation/division of shares.
Reconstruction	Generally reorganisation of one company with alteration/modification of rights of members/creditors; existing business continues in altered form.
Amalgamation	Blending of two or more existing undertakings into one undertaking; includes merger. Transferor company is amalgamated into transferee company.
Transferor company	Company whose undertaking/property/liabilities are transferred or which is amalgamated.
Transferee company	Company into which transferor company is amalgamated or to which assets/liabilities are transferred.
Merger by absorption	Undertaking/property/liabilities of one or more companies transfer to an existing company.
Merger by formation of new company	Undertaking/property/liabilities of two or more companies transfer to a new company.
Division/demerger style scheme	Undertaking/property/liabilities are divided among and transferred to two or more existing/new companies.

Amalgamation in nature of merger vs purchase

Aspect	Amalgamation in nature of merger	Amalgamation in nature of purchase
Assets and liabilities	Merger: all assets/liabilities of transferor become assets/liabilities of transferee.	Purchase: one or more merger conditions are not satisfied.
Shareholder continuity	Shareholders holding at least 90 percent of face value of equity shares of transferor become equity shareholders of transferee, excluding shares already held by transferee/subsidiaries/nominees.	If this continuity fails, it is purchase in nature.
Consideration	Consideration to equity shareholders who agree to become shareholders is discharged wholly by equity shares, except cash for fractional shares.	If cash/other consideration dominates, it may become purchase in nature.
Business continuity	Business of transferor intended to be carried on by transferee.	Generally same business is not continued.
Book values	No adjustment to book values except for uniform accounting policies.	Assets/liabilities may be taken over differently under purchase method.
Accounting method	Pooling of interests method.	Purchase method.

C. Section 230 - Power to Compromise or Make Arrangements with Creditors and Members

1. Who can apply and what can Tribunal order?

Point	Rule
Who may apply?	Company, creditor, member, or liquidator if the company is in voluntary liquidation.
Arrangement/compromise with whom?	Company with creditors/class of creditors; or company with members/class of members.
Tribunal power	Order meeting of creditors/class or members/class to be called, held and conducted as Tribunal directs.
Arrangement includes	Reorganisation of share capital by consolidation of different classes, division into different classes, or both.

2. Disclosures by applicant

- All material facts relating to company: latest financial position, latest auditor report, and pendency of investigation/proceedings.
- Reduction of share capital, if any, included in compromise/arrangement.
- For corporate debt restructuring consented by at least 75 percent secured creditors in value: creditor responsibility statement, safeguards for other creditors, auditor liquidity report, RBI guideline statement where applicable, and valuation report by registered valuer for shares, property and assets.

3. Notice and publication

Area	Rule
Individual notice	All creditors/class of creditors, members/class of members, and debenture-holders at registered address.
Notice annexure	Details of compromise/arrangement; copy of valuation report if any; effect on creditors, KMP, promoters, non-promoter members and debenture-holders; effect on material interests of directors/debenture trustees; prescribed matters.
Website/newspaper	Notice/documents placed on company website, and for listed company sent to SEBI and stock exchange for website placement, and published in newspapers as prescribed.
Free copy	Advertisement must indicate time within which copies of scheme are available free of charge from registered office.
Regulator notice	CG, income-tax authorities, RBI, SEBI, Registrar, stock exchanges, OL, CCI if necessary, and other affected sectoral regulators/authorities.
Regulator response time	Representations, if any, within 30 days of receipt; failing which presumed no representations.

4. Voting, objection and binding effect

Topic	Exam rule
Voting modes	In meeting themselves, through proxies, or by postal ballot within one month from receipt of notice.
Objection threshold	Only persons holding at least 10 percent shareholding OR having outstanding debt at least 5 percent of total outstanding debt can object.
Approval threshold	Majority of persons representing 3/4th in value of creditors/class or members/class, voting in person/proxy/postal ballot.
After Tribunal sanction	Scheme binds company, creditors/classes, members/classes; if company is being wound up, also liquidator and contributories.
Creditors meeting dispensation	Tribunal may dispense with meeting of creditors/class if creditors holding at least 90 percent value agree and confirm by affidavit.

5. Tribunal order under Section 230(7)

- Conversion of preference shares into equity shares: preference shareholders get option to obtain arrears of dividend in cash or accept equity shares equal to dividend value.
- Protection of any class of creditors.
- Variation of shareholders rights: effect under Section 48.
- Abatement of BIFR proceedings if compromise/arrangement agreed by creditors.
- Exit offer to dissenting shareholders and other matters necessary to implement the scheme.
- Auditor certificate: accounting treatment must conform with accounting standards under Section 133.
- Order must be filed with Registrar within 30 days of receipt.
- Reduction of capital effected under Section 230 order does not require separate Section 66 compliance.

6. Buy-back and takeover offer

- No compromise/arrangement involving buy-back can be sanctioned unless buy-back complies with Section 68.
- Compromise/arrangement may include takeover offer. For listed companies, takeover offer must follow SEBI regulations.
- For companies other than listed companies, an aggrieved party may apply to Tribunal regarding grievances with respect to takeover offer.

D. Section 231 - Tribunal Power to Enforce Compromise or Arrangement

Power	Meaning
Supervise implementation	Tribunal supervises implementation after sanctioning scheme under Section 230.
Directions/modifications	At order stage or later, Tribunal may give directions or modifications necessary for proper implementation.
Winding up	If scheme cannot be implemented satisfactorily with or without modifications and company is unable to pay its debts as per scheme, Tribunal may order winding up; order deemed under Section 273.
Retrospective reach	Applies, so far as may be, even to companies for which an order was made before commencement of the Act.

E. Section 232 - Merger and Amalgamation of Companies

1. When Section 232 applies

- Application is made under Section 230 and scheme is for reconstruction involving merger/amalgamation of two or more companies.
- Whole or part of undertaking, property or liabilities of transferor company is transferred to transferee company, or divided among and transferred to two or more companies.
- Tribunal may order meetings, and Section 230(3) to (6) applies mutatis mutandis.

2. Additional documents to circulate for merger/division meeting

Document/information	Why important
Draft terms of scheme adopted by directors	Shows board-approved scheme terms.
Confirmation that draft scheme filed with Registrar	RoC filing checkpoint.
Directors report	Explains effect on each class of shareholders, KMP, promoters, non-promoter shareholders; especially share exchange ratio and valuation difficulties.
Expert valuation report, if any	Supports share exchange and consideration.
Supplementary accounting statement	Needed where last annual accounts relate to financial year ending more than 6 months before first scheme meeting.

3. Matters Tribunal order may provide under Section 232(3)

Matter	Provision point
Transfer	Transfer to transferee company of undertaking/property/liabilities from date determined by parties unless Tribunal decides otherwise with reasons.
Allotment/appropriation	Shares, debentures, policies or other instruments to be allotted/appropriated.
No treasury shares	Transferee cannot hold its own shares through itself/trust/subsidiary/associate; such shares must be cancelled/extinguished.
Legal proceedings	Continuation by/against transferee of proceedings pending by/against transferor.
Dissolution	Dissolution of transferor company without winding up.
Dissenters	Provision for persons dissenting from compromise/arrangement.
Non-resident shareholders	Allotment of shares of transferee in manner specified in order where share capital is held by non-resident under FDI norms/law.
Employees	Transfer of employees of transferor company to transferee company.
Listed transferor into unlisted transferee	Transferee remains unlisted until it becomes listed; opt-out shareholders get value/benefits not below SEBI-specified amount.
Authorised capital fee set-off	Fee paid by transferor on authorised capital set off against fee payable by transferee after amalgamation.
Incidental/supplemental matters	Any matter needed to make merger/amalgamation fully and effectively carried out.
Auditor certificate	No sanction without certificate on accounting treatment conformity with Section 133 accounting standards.

4. Effect, appointed date and ongoing compliance

- If order transfers property/liabilities, property and liabilities transfer by virtue of the order. Property may be freed from charge if order directs and charge ceases due to scheme.
- Certified copy of order must be filed with Registrar within 30 days of receipt of certified copy.
- Scheme must clearly indicate an appointed date. Scheme is deemed effective from that appointed date and not from any later date.
- Until completion of scheme, every company in relation to which order is made files annual certified statement with Registrar indicating compliance with Tribunal order.

F. Section 233 - Fast Track Merger or Amalgamation

Key exam line: Section 233 is optional. Even if a holding company and wholly owned subsidiary can use fast track merger, they may still use Section 232 normal merger route.

Step/area	Rule
Eligible companies	Two or more small companies; holding company and its wholly owned subsidiary company; other prescribed classes.
Notice of proposed scheme	Notice to Registrar and Official Liquidator inviting objections/suggestions.
Members approval	Approved at general meeting by members holding at least 90 percent of total number of shares.
Declaration of solvency	Each company files declaration of solvency with Registrar.
Creditors/class approval	Meeting of creditors/class by 21 days notice OR written approval; approval by majority representing 9/10th in value.
Filing approved scheme	Transferee company files approved scheme with Central Government (powers delegated to RD), Registrar and Official Liquidator.
RD/CG no objection	If no objection/suggestion or objections/suggestions not sustainable and scheme is in public interest/creditors interest, confirmation order issued.
RD/CG objection	If scheme is not in public interest or creditors interest, application is filed before Tribunal stating objections within prescribed period.
Tribunal options	Tribunal may direct normal Section 232 procedure or confirm scheme if it thinks fit.
Effect after confirmation	Transfer of property/liabilities, charges, legal proceedings, dissolution without winding up, fee set-off, and other consequences as per scheme/order.

G. Section 234 - Merger or Amalgamation with Foreign Company

Topic	Rule
Meaning of foreign company	Any company or body corporate incorporated outside India, whether having place of business in India or not.
Foreign company into Indian company	Foreign company may merge with Indian company after prior RBI approval and compliance with Sections 230 to 232 and relevant rules.
Indian company into foreign company	Indian company may merge with foreign company incorporated in jurisdictions specified by CG in consultation with RBI and after complying with Sections 230 to 232 and rules.
Consideration	Scheme may provide payment to shareholders in cash, depository receipts, or partly in cash and partly in depository receipts.
Foreign holding into Indian WOS	If transferor foreign company is holding company and transferee Indian company is WOS, both obtain prior RBI approval; Indian transferee complies with Section 233 and applies to CG under Section 233.
Demerger caution	Material notes indicate cross-border demerger/arrangement is not the same as permitted merger/amalgamation under Section 234.

H. Section 235 - Acquisition of Shares of Dissenting Shareholders

Item	Rule
Trigger	Scheme/contract involving transfer of shares/class of shares in transferor company to transferee company.
Approval needed	Approved by holders of not less than 9/10th in value of shares whose transfer is involved, within 4 months after offer.
Exclusions	Shares already held at date of offer by transferee company, its nominee or subsidiary are not counted for this purpose.
Notice to dissenters	Transferee expresses desire to acquire remaining shares within 2 months after expiry of 4 months and gives prescribed notice (CAA-14).
Dissenting shareholder meaning	Shareholder who has not assented to scheme/contract, or who failed/refused to transfer shares in accordance with scheme/contract.
Application to Tribunal	Dissenting shareholder may apply within 1 month from date notice was given. Unless Tribunal orders otherwise, transferee is entitled and bound to acquire.
Transfer process	Transferee sends notice copy to transferor with transfer instrument and pays/transfers consideration to transferor company.
Trust and payment	Transferor company holds amount/consideration in separate bank account/in trust and disburses to entitled shareholders within 60 days.

I. Section 236 - Purchase of Minority Shareholding

Area	Rule
90 percent trigger	Acquirer/person acting in concert becomes registered holder of 90 percent or more of issued equity share capital; or person/group becomes 90 percent majority by amalgamation, share exchange, conversion of securities or any other reason.
Majority duty	Such acquirer/person/group notifies company of intention to buy remaining equity shares.
Price	Offer to minority shareholders at price determined by registered valuer under Rule 27.
Minority right	Minority shareholders may also offer to majority shareholders to purchase their equity shares at Rule 27 value.
Deposit	Majority deposits amount equal to value of shares to be acquired in separate bank account operated by company for at least 1 year.
Disbursement	Amount disbursed to entitled shareholders within 60 days; continued disbursement for 1 year for those not paid or who fail to receive/claim.
Company as transfer agent	Company whose shares are transferred receives/pays price, takes delivery of shares and delivers to majority.
No physical delivery	Share certificates deemed cancelled; company can issue shares in lieu and complete transfer; payment dispatched out of majority deposit.
Dead/ceased shareholders	Right to make offer for sale continues for 3 years from date of majority acquisition/shareholding where heirs/successors etc. not on record.
Higher price sharing	If shareholders holding 75 percent or more minority equity shareholding negotiate/understand higher price before transfer without disclosure, majority shares additional compensation pro rata with minority shareholders.

J. Sections 237 to 240 - Public Interest, Registration, Books and Continuing Liability

Section	Provision

237 - Public interest amalgamation	If CG is satisfied it is essential in public interest that two or more companies amalgamate, CG may by Official Gazette order provide for amalgamation into one company with specified constitution, property, rights, powers, liabilities and obligations.
237 - Legal proceedings	Order may provide for continuation by/against transferee company of legal proceedings pending by/against transferor.
237 - Compensation	Members/creditors/debenture-holders should have nearly same interest/rights; if less, compensation assessed by prescribed authority, published in Official Gazette, and paid by transferee.
237 - Appeal	Aggrieved person may appeal to Tribunal within 30 days from publication of compensation assessment.
237 - Prerequisites	Draft order sent to companies; time for appeal expired or appeal disposed; CG considers suggestions/objections received within period fixed, not less than 2 months from receipt of draft by company.
237 - Parliament	Copies of every order to be laid before each House of Parliament.
238 - Offer circular	Every circular containing offer/recommendation under Section 235 must be accompanied by prescribed information, contain cash availability statement, and be registered with RoC before issue.
238 - RoC refusal	RoC may refuse registration with recorded reasons if circular lacks required information or gives false impression; refusal communicated within 30 days; appeal lies to Tribunal.
239 - Preservation of books	Books and papers of amalgamated/acquired company cannot be disposed of without prior CG permission. CG may appoint person to examine books for evidence of offences.
240 - Continuing liability	Officers in default remain liable for Companies Act offences committed by transferor company before merger/amalgamation/acquisition.

K. Dedicated Penalties, Consequences and Filing Deadlines Section

Provision	Default/event	Penalty, consequence or deadline
230(5)	Regulator/authority representation deadline	Representations to be made within 30 days from receipt of notice; otherwise presumed no representation.
230(8)	Filing Tribunal order with Registrar	Order to be filed by company within 30 days of receipt.
232(5)	Certified copy of merger/amalgamation order	Every company in relation to which order is made must file certified copy with RoC within 30 days of receipt.
232(8)	Failure to file certified copy under 232(5)	Company and every officer in default liable to penalty of Rs. 20,000; continuing failure Rs. 1,000 per day after first, maximum Rs. 3,00,000.
232(7)	Annual certified compliance statement	Until completion, annual filing with RoC certified by CA/CMA/CS in practice whether scheme is complied with.
233	Fast track creditors notice	Meeting of creditors/class by 21 days notice unless written approval route.
233	Fast track creditors approval	Approval by majority representing 9/10th in value of creditors/class.
233	Fast track members approval	Members holding at least 90 percent of total number of shares.
234	Cross-border merger	Prior RBI approval is mandatory.
235(1)	Approval for compulsory acquisition	9/10th in value approval within 4 months after offer.
235(1)	Notice to dissenting shareholders	Within 2 months after expiry of 4 months.
235(2)	Dissenting shareholder application to Tribunal	Within 1 month from date notice was given.
235(4)	Disbursement by transferor company	Separate bank/trust money to be disbursed within 60 days.
236(4)	Majority deposit for minority purchase	Separate bank account operated by company for at least 1 year; payment within 60 days and continued disbursement for 1 year for unclaimed/unreceived cases.
236(7)	Dead/ceased shareholders etc.	Right to offer for sale continues for 3 years from majority acquisition/shareholding.
236(8)	Higher-price negotiation	If 75 percent or more minority equity shareholders negotiate higher price before transfer without disclosure, additional compensation shared pro rata.
237(4)	Appeal against compensation assessment	Within 30 days from publication of assessment in Official Gazette.
237(5)	Suggestion/objection period on draft order	CG-fixed period cannot be less than 2 months from receipt of draft by company.
238(1)	RoC refusal communication	RoC communicates refusal to register circular within 30 days of application.
238(3)	Unregistered offer circular	Director issuing a circular not presented for registration/registered is liable to penalty of Rs. 1,00,000.
239	Disposal of books	No disposal of books/papers of amalgamated/acquired company without prior CG permission.
240	Pre-merger offences	Liability of officers in default continues after merger/amalgamation/acquisition.

L. Quick Number Revision Chart

Number	Where to apply
75% secured creditors in value	Corporate debt restructuring consent disclosure under Section 230.
30 days	Regulators to make representation; RoC order filing; compensation appeal; RoC refusal communication.
1 month	Voting within one month from receipt of notice; dissenting shareholder application after Section 235 notice.
90% value	Tribunal may dispense creditors meeting where creditors/class agree by affidavit.
3/4th in value + majority in number	Approval of scheme by members/creditors present and voting.
4 months	Section 235 approval window for 9/10th in value shareholders.
2 months after 4 months	Notice by transferee to dissenting shareholders under Section 235.
60 days	Disbursement to entitled shareholders under Sections 235/236.
90% issued equity capital	Section 236 minority purchase trigger.
9/10th in value	Fast track merger creditor approval.
90% total number of shares	Fast track merger member approval.
21 days	Fast track creditor meeting notice.
1 year	Separate bank account under Section 236 operated for at least one year.
3 years	Right of dead/ceased shareholders etc. to offer sale continues under Section 236(7).
Rs. 20,000 + Rs. 1,000/day max Rs. 3 lakh	Penalty for failure under Section 232(5).
Rs. 1 lakh	Penalty on director issuing unregistered Section 238 circular.

M. Case Scenario Booklet - Chapter Relevant Questions with Answers

The following are chapter-relevant case booklet digests. Questions are condensed for revision, but the legal reasoning and answers are preserved in substance from the uploaded case booklet.

Case Scenario 19 - KBL listed company merges with ABL unlisted company

Question	Answer and reasoning
Q1. When does ABL become listed after listed KBL merges into unlisted ABL?	Answer: ABL remains unlisted until it itself becomes a listed company. Reason: Section 232(3)(h)(A).
Q2. If KBL shareholders opt out, what is minimum payment/valuation floor?	Answer: Not less than what SEBI specifies. Reason: Proviso to Section 232(3)(h)(B).
Q3. Director argues scheme effective from RoC registration; scheme gives appointed date 15 days after receipt of certified copy. Which date applies?	Answer: Appointed date given in the scheme applies. Reason: Section 232(6).
Q4. Implementation will take time. What annual monitoring filing is needed?	Answer: Until completion, ABL files annual statement with Registrar, certified by CA/CMA/CS in practice, indicating compliance with Tribunal order. Reason: Section 232(7).
Q5. Neelesh committed offences before merger; does merger wipe liability?	Answer: No. Liability of officers in default for pre-merger offences continues. Reason: Section 240.
Q6. Can KBL books/papers be disposed of after merger?	Answer: Only with prior permission of Central Government. Reason: Section 239.

Case Scenario 31 - Superfast Motors, Mars Ltd and Jupiter Mauritius Auto

Question	Answer and reasoning
Q1. Mr. Bhaskar holds directorships in many companies. Which directorship is excluded for 20-company limit?	Answer: Dormant company directorship is excluded. Alternate directorship is included, and private company that is subsidiary/holding of public company counts for public company limit.
Q2. Mars Ltd denies compensation for loss of office after merger to MD, WTD and non-executive directors. Who is eligible?	Answer: Absolute denial is not valid only for Mr. Ramneek, the Managing Director. Section 191(2) covers MD/WTD/Manager compensation for loss of office, but in given facts WTD Lokesh was appointed as Manager in transferee; non-executive directors are not covered.
Q3. Can Jupiter Mauritius Auto Limited merge with Superfast Motors Limited?	Answer: Yes, only after prior RBI approval and compliance with Sections 230 to 232 and rules. Reason: Section 234 read with Rule 25A.
Q4. Was approval of Superfast members valid where majority present/proxy voting held 76.53 percent in value?	Answer: Yes. Section 230(6) read with Section 232 requires majority in number representing 3/4th in value of members present and voting; absentee members do not defeat the vote.
Q5. If Superfast proposal to Mars was a takeover offer, can 110 members of listed Mars file takeover grievance to NCLT?	Answer: No. Section 230(12) grievance route is for takeover offer of companies other than listed companies. Listed company takeover is governed by SEBI regulations.

Case Scenario 32 - SportsPoint bonus debentures through arrangement

Question	Answer and reasoning
Q1. 2.5 crore shares; one Rs. 150 debenture for each share. How much accumulated profits used?	Answer: Rs. 375 crore (2.5 crore x Rs. 150).
Q2. What majority is required for scheme of arrangement?	Answer: Simple majority in number of members present and voting, representing 3/4th in value. Reason: Section 230(6).
Q3. If all shareholders are considered, minimum shares in value for 3/4th approval out of 2.5 crore shares?	Answer: 1.875 crore equity shares.
Q4. If 1,25,000 total members, 40% attend and 30% vote, minimum number voting in favour?	Answer: 18,751 members; majority is reckoned against 37,500 members who voted.
Q5. If only 30% voted, what minimum shareholding value must vote in favour out of Rs. 7.5 crore voting value?	Answer: Rs. 5.625 crore, being 3/4th of Rs. 7.5 crore.

ICAI Test Your Knowledge - MCQ digest

Question point	Answer
1. Notice of meeting under NCLT scheme	Answer: 30 days.
2. Minimum approval for compromise/arrangement	Answer: Both majority in number and 75% in value of members/creditors present and voting.
3. Time for disbursement to shareholder under minority purchase	Answer: 60 days.
4. Creditor value needed for Tribunal to dispense with creditors meeting	Answer: 90% value.
5. 1200 shareholders, Rs. 1.2 crore shares; 100 shareholders with Rs. 36 lakh against	Answer: Not approved because votes in favour are only Rs. 84 lakh, which is below 3/4th of Rs. 1.2 crore.
6. CG objects to fast track merger as not in public interest	Answer: CG may file application before NCLT stating objections.
7. Holding-WOS merger: must use Section 233?	Answer: No. Section 233 fast track route is optional; Section 232 normal route may be used.

ICAI Descriptive Question Templates

Holding company-WOS merger under Section 232 vs Section 233

State Section 233 permits fast track merger of holding company and wholly owned subsidiary, but it is optional. Therefore company may choose normal Section 232 route; CS contention that only Section 233 must be used is invalid.

Scheme approval computation - ABC type

Compute only members who actually voted. Check majority in number of voters, then 3/4th in value of shares held by voters. Abstentions are excluded from both numerator and denominator.

Scheme approval computation - DEF type

Even if value test is satisfied, majority in number must also be satisfied. If persons voting for are less than persons voting against, scheme fails the number test despite 3/4th value.

NCLT order under Section 230(7)

List preference conversion option, creditor protection, Section 48 variation, BIFR abatement, exit offer/other necessary matters, auditor certificate, and filing with RoC within 30 days.

Section 235 takeover validity

Check date logic strictly: offer must remain open/approval received within 4 months; notice to dissenters after expiry of 4 months within next 2 months; dissenters get 1 month to apply to Tribunal; transferee must acquire all dissenting shares covered, not selectively.

N. Last-Day Revision - One Page Flow

Step	Ask this	Apply
Start	Is there compromise/arrangement with creditors/members?	Section 230 application + disclosures + notice + voting + Tribunal sanction.
Implementation issue	Scheme sanctioned but implementation problems?	Section 231 supervision/directions/modification/winding up.
Merger/reconstruction	Is undertaking/property/liability being transferred/divided?	Section 232 merger/amalgamation documents + order + appointed date + annual compliance.
Small/WOS merger	Is it small-small or holding-WOS?	Section 233 fast track optional route.
Foreign element	Indian with foreign company/body corporate?	Section 234 prior RBI approval and cross-border rules.
Dissenters after 9/10 approval	Is transferee acquiring dissenting shareholders?	Section 235.
Acquirer reaches 90%	Purchase/sale of remaining minority equity shares?	Section 236.
Public interest	CG itself considers amalgamation essential?	Section 237.
Circular	Offer circular under Section 235?	Section 238 registration with RoC.
After merger	Books/offences issues?	Section 239 CG permission for books; Section 240 liability continues.

O. Examiner Traps

- Do not say Section 233 is mandatory for holding-WOS merger. It is optional.
- Do not count abstaining members while testing Section 230 majority. Count members present and voting.
- Do not use only value test. Section 230 requires majority in number plus 3/4th in value.
- Do not say unlisted transferee automatically becomes listed when listed transferor merges into it. It remains unlisted until it becomes listed.
- Do not treat appointed date as RoC filing date unless scheme says so. Section 232(6) gives importance to appointed date in scheme.
- Do not forget auditor certificate on accounting treatment under Sections 230/232.
- Do not say pre-merger offences vanish. Section 240 keeps liability alive.
- Do not dispose transferor company books without Central Government permission.
- Do not confuse Section 235 dissenting shareholders with Section 236 minority purchase. 235 is 9/10th approval in value after offer; 236 is 90 percent issued equity majority trigger.
- Do not permit Section 230(12) NCLT takeover grievance for listed companies; listed takeovers are governed by SEBI regulations.
- Do not forget prior RBI approval for cross-border merger under Section 234.
- Do not forget penalty under Section 238 for unregistered circular: Rs. 1 lakh on director issuing it.

P. Answer-Writing Templates

Template 1 - Section 230 scheme approval

As per Section 230(6), where at a meeting held, majority of persons representing three-fourths in value of creditors/class or members/class, voting in person or by proxy or by postal ballot, agree to the compromise or arrangement and the Tribunal sanctions it, the scheme becomes binding. The majority is dual: simple majority in number of persons voting and three-fourths in value of shares/debt represented by persons voting. Abstentions are not counted. Applying this to the given facts...

Template 2 - Section 232 merger effective date

As per Section 232(6), the scheme shall clearly indicate an appointed date from which it shall be effective, and the scheme shall be deemed to be effective from such date and not from a later date. Therefore, unless the scheme itself provides otherwise, the effective date is the appointed date mentioned in the scheme, not merely the date of filing/registration of the Tribunal order.

Template 3 - Section 235 dissenting shareholder acquisition

Under Section 235, if the offer/scheme for transfer of shares is approved by holders of not less than nine-tenths in value of shares whose transfer is involved within four months, the transferee may within two months after expiry of such four months give notice to dissenting shareholders. A dissenting shareholder may apply to Tribunal within one month. Unless Tribunal orders otherwise, transferee is entitled and bound to acquire on the same terms.

Template 4 - Section 236 minority purchase

Under Section 236, when an acquirer/person acting in concert becomes registered holder of ninety percent or more of issued equity share capital, or any person/group reaches ninety percent majority due to amalgamation/share exchange/conversion/other reason, such person shall notify the company of intention to buy remaining equity shares at registered valuer determined price. The majority must deposit consideration in a separate bank account and the company acts as transfer agent.

Source Map

Source used	How it was used
ICAI Chapter 5 module	Primary provision-wise coverage from Sections 230 to 240, examples, Test Your Knowledge questions and answers.
Case Scenario Booklet	Case Scenario 19, 31 and 32 chapter-relevant MCQ digest and reasoning.
Hemant Somani SPOM Law notes	Revision-style numeric limits, exam traps and summarized framing.
SPOM Set A All Important Points PDF	Cross-checking important points and penalty/time-limit style presentation.

Chapter 6 - Prevention of Oppression and Mismanagement

Comprehensive exam-oriented Word notes with mega case study, exact thresholds, penalties, case questions and revision charts

Source discipline: Prepared only from the uploaded material: ICAI Chapter 6 module, Case Scenario Booklet, SPOM Set A All Important Points PDF, and Hemant Somani SPOM Law notes. No online or external source has been used.

How to use these Chapter 6 notes

- First read the mega case. It connects Sections 241 to 246 with minority rights, class action, tribunal powers, termination consequences and penalties.
- Then memorise the exact thresholds table. This chapter is an MCQ trap because Section 244 and Section 245 use different numerical thresholds.
- Whenever you see words like oppression, mismanagement, class action, fit and proper person, NCLT, compensation, or termination of agreement, immediately identify the section trigger.
- Use the penalties and consequences section for last-day revision. I have not written vague phrases like prescribed threshold; exact limits have been written wherever the uploaded material gives them.

Core memory: Section 241 = grounds to approach NCLT. Section 244 = who can apply under Section 241. Section 242 = what NCLT can order. Section 243 = consequences after termination/modification of agreements. Section 245 = class action by members/depositors. Section 246 = winding-up fraud provisions apply to Sections 241 and 245 proceedings.

A. Mega Integrated Case Study - The Minority Protection Story

Facts

Aarohan Mobility Private Limited (AMPL) is a private company with share capital. It has 12 members. Three promoter families hold 91 percent of the issued share capital and control the Board. The remaining 9 percent is held by minority investors: Mira, Dev, and Arjun. The majority group starts using its voting strength to approve transactions that benefit itself and gradually sidelines the minority.

- The majority directors stop sharing proper board information and exclude minority nominees from meaningful discussions.
- The Board issues further shares to a promoter-owned entity at a low value, reducing the minority stake from 9 percent to 4 percent.
- The company is profitable, but the Board does not recommend dividend, saying funds are required for expansion.
- The MD diverts company opportunities to a promoter-controlled supplier and causes bad debts by giving unusual credit to related parties.
- The Board passes a special resolution altering the Articles to compulsorily transfer shares of any member who competes with the company.
- A class of depositors alleges that the company and its auditors made misleading statements in the financial reports.
- The Central Government receives information that the business is being carried on in a manner prejudicial to public interest and that the MD is not a fit and proper person to conduct company management.

Integrated legal analysis

Issue in the story	Provision triggered / exam memory point
1. Majority rule starting point	Normally, courts do not interfere with internal management when the company can ratify an act by ordinary majority. This is the rule in Foss v. Harbottle.
2. Exceptions to majority rule	Minority protection can arise for ultra vires/illegal acts, acts requiring special majority, personal rights, and fraud on minority.
3. Oppression trigger	If majority conduct is burdensome, harsh, wrongful, lacks probity/fair dealing, and affects the complainant in capacity as member, it may be oppression.
4. What is not oppression by itself	Mere domestic disputes, lack of confidence, continuous losses alone, non-declaration of dividend alone, or a single isolated act generally do not prove oppression.
5. Mismanagement trigger	If affairs are conducted prejudicially to public interest/company interest, or a material change in management/control is likely to prejudice company/members, Section 241 is triggered.
6. Member application under Section 241	Mira, Dev and Arjun can apply only if they satisfy Section 244 thresholds, unless NCLT waives the requirements.
7. Threshold where company has share capital	Applicants must satisfy the lower of: 100 members OR 1/10th of total members OR member(s) holding not less than 1/10th of issued share capital; all calls and other sums due on their shares must be paid.
8. Application where only 12 members exist	1/10th of 12 = 1.2; practically, at least 2 members will satisfy the member-count limb. If three minority members apply, the number-of-members threshold is met even if they hold less than 10 percent issued share capital.
9. Dilution below 10 percent	If the minority stake was reduced below 10 percent by the very allotment being challenged, the petition can still be maintainable; validity of allotment is examined first.
10. Legal heir issue	A legal heir of a deceased shareholder can file if he is in the position of minority shareholder, even if his name is not yet on the register, as per ICAI example.
11. Withdrawal of consent	Consent/eligibility is reckoned at the beginning of proceedings. Later withdrawal by consenting members does not destroy maintainability.
12. CG suo motu application	If CG believes affairs are prejudicial to public interest, it may itself apply to Tribunal under Section 241.
13. CG fit and proper proceeding	If CG finds fraud, misfeasance, persistent negligence/default, breach of trust, unsound business practices, serious injury to trade/industry/business, or fraudulent/unlawful purpose, it may refer the person to Tribunal to decide whether he is fit and proper to hold management office.
14. Tribunal relief under Section 242	If affairs are oppressive/prejudicial and winding up would unfairly prejudice members though just and equitable winding up facts exist, NCLT may pass orders to end the matters complained of.
15. Possible NCLT orders	Regulate future conduct; buyout of shares/interests; capital reduction consequent to buyout; restrictions on transfer/allotment; termination/modification of agreements; set aside fraudulent preference within 3 months; remove MD/manager/director; recover undue gains; appoint directors; impose costs; any just and equitable order.
16. Alteration of MOA/AOA by order	If NCLT order alters MOA/AOA, the company cannot make inconsistent alteration without NCLT leave. Certified copy must be filed with RoC within 30 days.
17. Terminated MD consequences	An MD/director/manager whose agreement is terminated or set aside by Section 242 order cannot be appointed or act as MD/director/manager of the company for 5 years without leave of Tribunal.
18. Not fit and proper person	A person declared not fit and proper under Section 242(4A) cannot hold directorship or any office connected with conduct and management of any company for 5 years from decision, unless CG with NCLT leave permits earlier holding.

19. No compensation	A removed person is not entitled to compensation for loss or termination of office, notwithstanding contract/MOA/AOA/other law.
20. Class action trigger	Members/depositors may file class action if management/conduct is prejudicial to company, members or depositors. Relief can restrain ultra vires acts, breach of MOA/AOA, unlawful acts, action contrary to member resolutions, or claim damages from company/directors/auditors/experts/advisors.
21. Class action member threshold - share capital company	At least 100 members OR at least 5 percent of total members, whichever is less; OR members holding at least 5 percent of issued share capital for unlisted company; OR at least 2 percent of issued share capital for listed company.
22. Class action company without share capital	At least 1/5th of total members.
23. Class action depositors	At least 100 depositors OR at least 5 percent of total depositors, whichever is less; OR depositor(s) to whom company owes at least 5 percent of total deposits.
24. Banking company exception	Section 245 class action provisions do not apply to a banking company.
25. Frivolous/vexatious application	NCLT rejects with recorded reasons and may order applicant to pay costs to opposite party up to INR 1,00,000.
26. Winding-up fraud provisions apply	Sections 337 to 341 apply mutatis mutandis to Sections 241 and 245 proceedings: fraud by officers, failure to keep proper accounts, fraudulent conduct, damages against delinquent directors, and extension to partners/directors.

What-if scenarios from the mega case

If this happens...	Then remember...
If minority complains only that no dividend was declared despite profit	Generally not oppression by itself. Dividend decision is commercial; failure to declare dividend alone is not oppression.
If minority complains that company is making losses due to market conditions	Losses alone do not amount to oppression or mismanagement.
If majority issues shares only to convert majority into minority	Grave act of oppression; fiduciary power to issue shares must be exercised bona fide for company benefit.
If a director is removed from office	Director removal by itself cannot be treated as oppressive/prejudicial under Section 241; applicant must show member-capacity prejudice.
If petitioner is a creditor, not shareholder	Creditor cannot invoke Section 241 unless also a member; Section 241 language is member-centric, though CG can apply.
If a legal heir has inherited shares but name not on register	He can maintain petition if he is in position of minority shareholder as per ICAI example.
If petitioner holds 1/10th paid-up share capital but not 1/10th issued share capital	Section 244 uses issued share capital, not paid-up or subscribed capital. Paid-up capital can mislead in MCQs.
If company has 8 members and one member holds less than 10 percent shares	One member can apply because 1/10th of total number of members is less than 1, so practically one member satisfies member-count threshold.
If a class action is filed by members holding 2.5 percent shares in a listed company	Maintainable on shareholding limb because listed company threshold is at least 2 percent issued share capital.
If the same class action cause is filed in different jurisdictions	All similar applications should be consolidated into a single application; two class actions for same cause are not allowed.
If class action is against auditor firm for misleading audit report	Liability is of audit firm and each partner involved in the improper/misleading statement or fraudulent/unlawful/wrongful act.
If applicant files vexatious class action	NCLT may reject with reasons and impose cost up to INR 1,00,000 payable to opposite party.

B. Exact Thresholds, Time Limits, Monetary Limits and Cooling Periods

This section replaces vague phrases like "prescribed threshold" with exact limits from the uploaded material. Use this table for MCQs.

Provision	Trigger	Exact limit / threshold / consequence
Section 244 - company with share capital	Right to apply under Section 241	Lower of: 100 members OR 1/10th of total members OR member(s) holding not less than 1/10th of issued share capital. Applicants must have paid all calls and sums due on shares.
Section 244 - company without share capital	Right to apply under Section 241	At least 1/5th of total number of members.
Section 244 - joint holders	Counting applicants	Joint holders of shares are counted as one member.
Section 244 - waiver	NCLT discretion	Tribunal may waive all or any of the above Section 244 requirements on application.
Section 242 order filing	Certified copy of NCLT order	Company must file certified copy of Tribunal order with RoC within 30 days of the order.
Section 242 MOA/AOA alteration filing	Order altering/giving leave to alter MOA/AOA	Certified copy must be filed with RoC within 30 days after making of the order; RoC registers it.
Section 242 fraudulent preference look-back	Transfer/delivery/payment/execution/act relating to property	Can be set aside if done within 3 months before date of application and would be fraudulent preference in insolvency of an individual.
Section 243 cooling-off for removed MD/director/manager	Agreement terminated/set aside by NCLT order	Cannot be appointed or act as MD/director/manager of the company for 5 years from date of order without leave of Tribunal.
Section 243 not fit and proper person	Director/office connected with management	Cannot hold directorship or any office connected with conduct and management of any company for 5 years from NCLT decision, unless CG with NCLT leave permits earlier.
Section 245 class action - share capital company, member-count limb	Members filing class action	At least 100 members OR at least 5 percent of total number of members, whichever is less.
Section 245 class action - unlisted shareholding limb	Members filing class action	Member(s) holding at least 5 percent of issued share capital of the company.
Section 245 class action - listed shareholding limb	Members filing class action	Member(s) holding at least 2 percent of issued share capital of the company.
Section 245 class action - company without share capital	Members filing class action	At least 1/5th of total number of members.
Section 245 class action - depositor count limb	Depositors filing class action	At least 100 depositors OR at least 5 percent of total number of depositors, whichever is less.
Section 245 class action - depositor value limb	Depositors filing class action	Depositor(s) to whom the company owes at least 5 percent of total deposits of the company.
Section 245 frivolous/vexatious application	Cost payable to opposite party	Cost may be imposed up to INR 1,00,000.
Section 245 non-compliance by company	Fine on company	Fine: minimum INR 5,00,000 and maximum INR 25,00,000.
Section 245 non-compliance by officer in default	Imprisonment and fine	Imprisonment up to 3 years + fine minimum INR 25,000 and maximum INR 1,00,000.
Section 242(5) contravention by company	Inconsistent alteration of MOA/AOA without NCLT leave	Fine: minimum INR 1,00,000 and maximum INR 25,00,000.
Section 242(5) contravention by officer in default	Inconsistent alteration of MOA/AOA without NCLT leave	Fine: minimum INR 25,000 and maximum INR 1,00,000.
Section 243 contravention	Person knowingly acts as MD/director/manager in breach of restriction; other directors knowingly party	Fine up to INR 5,00,000.

C. Conceptual Foundation

1. Rule of Majority - Foss v. Harbottle

The normal rule is that the majority governs the company. If an act can be ratified by ordinary majority, courts generally do not interfere with internal management. This is why company law needs minority protection provisions.

Principle	Meaning	Exam trap
Company is proper plaintiff	Wrong done to the company must normally be sued upon by the company, not individual shareholders.	A shareholder cannot file merely because he personally dislikes a business decision.
Internal management non-interference	Courts usually do not interfere where the company acts within powers and majority can ratify.	Bad business decision is not automatically oppression.
Exceptions	Ultra vires/illegal act, acts requiring special majority, personal rights, and fraud on minority.	Chapter 6 focuses strongly on fraud on minority and unfair prejudice.

2. Meaning of oppression

- The conduct must involve visible departure from standards of fair dealing and violation of conditions of fair play on which a shareholder relies.
- The complainant must suffer in capacity as member, not merely as director, employee, creditor or some other capacity.
- The conduct should be burdensome, harsh and wrongful, and should involve lack of probity and fair dealing in proprietary rights as shareholder.
- There must generally be continuous acts up to the petition date; events are considered together, not as isolated incidents.

3. Meaning of mismanagement

- Affairs of the company are conducted prejudicial to public interest, or prejudicial/oppressive to member(s), or prejudicial to company interest.
- Material change in management/control can be challenged if, because of such change, company affairs are likely to be conducted prejudicially to company or members/class of members.
- Material change may be by alteration in Board/manager, ownership of shares, membership where no share capital, or any other manner.
- A change brought about by or in the interest of creditors, debenture holders or any class of shareholders is not treated as the relevant material change.

4. Rights and benefits of minority shareholders

Right / benefit	Where it appears	Purpose
Small shareholders director	Section 151	Board-level voice for small shareholders.
Application to NCLT	Section 241 read with Section 244	Relief against oppression/mismanagement.

Class action suit	Section 245	Collective remedy by members/depositors for prejudicial conduct.
Protection in reconstruction/amalgamation	Sections 235 and 236	Protection when minority interest may be suppressed during merger, amalgamation or reconstruction.
E-voting	Section 108	Voting without physical attendance; empowers minority participation.
Non-interested party approval in RPT	Section 188 context	Interested majority may be excluded; minority/non-interested shareholders approve.

D. Section-wise Exhaustive Notes

Section 241 - Application to Tribunal for relief in cases of oppression etc.

Who / Ground	Exact rule
Member application	Any member may apply if affairs have been/are being conducted prejudicial to public interest, prejudicial/oppressive to him or other members, or prejudicial to company interest; or if material change in management/control is likely to lead to prejudicial conduct.
Eligibility link	Member must have right to apply under Section 244 unless NCLT waives Section 244 requirements.
Past acts	Section 241(1)(a) covers past acts as well as continuing conduct.
Central Government suo motu	CG may itself apply if it is of opinion that company affairs are conducted prejudicial to public interest.
Principal Bench point	Applications by CG in respect of prescribed company/class are made before Principal Bench of Tribunal.
CG fit and proper proceeding	CG may initiate case against a person and refer to Tribunal to decide if he is fit and proper to hold directorship or any office connected with conduct/management of any company.
Respondent	Person against whom CG case is referred must be joined as respondent.
Application contents	CG application must contain concise statement of circumstances/materials and be signed/verified as a plaint under CPC.

When CG may initiate fit and proper case

- Fraud, misfeasance, persistent negligence/default in carrying out legal obligations/functions, or breach of trust.
- Business not conducted/managed in accordance with sound business principles or prudent commercial practices.
- Company conducted/managed in a manner likely to cause or having caused serious injury/damage to trade, industry or business.
- Business conducted with intent to defraud creditors, members or any other person, or otherwise for fraudulent/unlawful purpose, or in a manner prejudicial to public interest.

Section 244 - Right to apply under Section 241

Type of company	Who can apply	Important condition
Company having share capital	Lower of: (1) 100 members; (2) 1/10th of total members; (3) member(s) holding at least 1/10th of issued share capital.	Applicants must have paid all calls and other sums due on their shares.
Company without share capital	At least 1/5th of total number of members.	NCLT may waive this requirement.
Joint holders	Joint holders counted as one member.	Prevents artificial inflation of member count.
One or more members applying on behalf of all	May apply by obtaining written consent of other members.	Consent is tested at start; later withdrawal does not defeat maintainability.

Section 244 calculation examples

Fact pattern	Calculation	Result
8-member company; one member holds less than 10 percent shares	1/10th of 8 = 0.8. Lowest threshold based on member count is practically 1 member.	One member can apply even with less than 1/10th share capital.
500-member company; 80 members apply holding only INR 10 lakh out of INR 5 crore issued capital	Lower of 100 members or 50 members or INR 50 lakh shareholding. 80 members exceed 50.	Petition maintainable.
300-member company; 25 members hold 1/10th paid-up but only 1/15th issued capital	Need 100 or 30 members, whichever less, OR 1/10th issued capital. 25 < 30 and 1/15th issued < 1/10th issued.	No right unless NCLT waives.
12-member company; 3 minority members apply with 8 percent shares	1/10th of 12 = 1.2, so 3 members satisfy member-count limb.	Application maintainable if calls paid.

Section 242 - Powers of Tribunal

NCLT can pass orders if it finds: (1) company affairs are prejudicial/oppressive to member(s), prejudicial to public interest, or prejudicial to company interest; and (2) winding up would unfairly prejudice the member(s), though facts would justify just and equitable winding up.

Power/order	Meaning
Regulate future conduct	NCLT can frame governance path to end oppression/mismanagement.
Purchase of shares/interests	Shares/interests of members can be purchased by other members or by company.
Capital reduction	If company purchases its own shares, consequential reduction of share capital can be ordered.
Restrictions on transfer/allotment	NCLT may restrict transfer/allotment of shares to stop further abuse.
Terminate/set aside/modify agreements with MD/director/manager	Terms can be changed if just and equitable.
Terminate/set aside/modify agreements with others	Due notice and consent of the party concerned are required.
Set aside fraudulent preference	Transfer/delivery/payment/execution/other property act within 3 months before application can be set aside if it would be fraudulent preference in individual insolvency.
Removal of MD/manager/director	NCLT can remove management personnel.
Recovery of undue gains	Undue gains made by MD/manager/director can be recovered; use may include transfer to IEPF or repayment to identifiable victims.
Manner of future MD/manager appointment	NCLT can control how MD/manager is appointed after removal.
Appointment of directors	NCLT may appoint directors and require them to report to it.
Costs	NCLT may impose costs as deemed fit.
Any just and equitable matter	Wide residual power to end the matters complained of.

Interim order and fit-and-proper finding

- NCLT may make interim order regulating company affairs on terms it considers just and equitable.
- At conclusion of hearing of CG fit-and-proper case under Section 241(3), NCLT records whether respondent is fit and proper to hold directorship or other office connected with conduct and management of any company.
- If NCLT order alters MOA/AOA, the company cannot alter them inconsistently without leave of Tribunal.
- Alterations made by NCLT order have same effect as if duly made by company under the Act.
- Certified copy of every order altering or giving leave to alter MOA/AOA must be filed with RoC within 30 days.

Section 243 - Consequences of termination or modification of certain agreements

Consequence	Exact rule / exam answer
No damages or compensation claim	Termination/setting aside/modification by Section 242 order gives no claim against company for damages, compensation for loss of office, or otherwise.
5-year restriction for MD/director/manager	No MD/other director/manager whose agreement is terminated/set aside can be appointed or act as MD/director/manager of that company for 5 years from date of order without leave of Tribunal.
CG hearing before leave	Tribunal will not grant leave unless notice of intention to apply has been served on CG and CG has reasonable opportunity of being heard.
Fit and proper disqualification	Person held not fit and proper cannot hold directorship or management-connected office in any company for 5 years from decision, unless CG with Tribunal leave permits earlier.
No compensation on removal	Removed person is not entitled to any compensation for loss/termination of office, despite contract, MOA, AOA, other provisions or other law.
Penalty for knowingly acting in breach	Fine up to INR 5,00,000 on the person acting as MD/director/manager in contravention and every other director knowingly party.

Section 245 - Class Action

Who may file

Applicant class	Exact threshold
Members - company with share capital	At least 100 members OR at least 5 percent of total number of members, whichever is less; OR member(s) holding at least 5 percent of issued share capital in unlisted company; OR at least 2 percent of issued share capital in listed company.
Members - company without share capital	At least 1/5th of total number of members.
Depositors - count limb	At least 100 depositors OR at least 5 percent of total number of depositors, whichever is less.
Depositors - value limb	Depositor(s) to whom company owes at least 5 percent of total deposits.
Representative filing	Any person, group of persons or association representing affected persons may file/take action, subject to Section 245 compliance.
Exclusion	Section 245 does not apply to banking company.

Reliefs available in class action

- Restrain company from committing an act ultra vires MOA/AOA.
- Restrain company from committing breach of MOA/AOA.
- Declare resolution altering MOA/AOA as void if passed by suppression of material facts or misstatement to members/depositors.
- Restrain company and directors from acting on such resolution.
- Restrain company from doing an act contrary to Companies Act or any other law.
- Restrain company from taking action contrary to any members resolution.
- Claim damages/compensation/other suitable action against company/directors for fraudulent, unlawful or wrongful act/omission/conduct or likely act/omission/conduct.
- Claim damages/compensation/other action against auditor/audit firm for improper/misleading audit report particulars or fraudulent/unlawful/wrongful act/conduct.
- Claim damages/compensation/other action against expert/advisor/consultant/other person for incorrect/misleading statement or fraudulent/unlawful/wrongful act/conduct or likely act/conduct.
- Seek any other remedy NCLT considers fit.

What NCLT considers before admitting/deciding class action

- Whether member/depositor acts in good faith.
- Evidence regarding involvement of persons other than directors/officers in matters under clauses (a) to (f).
- Whether cause of action could be pursued individually rather than through class action.
- Views of members/depositors with no direct or indirect personal interest.
- For future acts/omissions: whether they could and likely would be authorised before occurrence or ratified after occurrence.
- For past acts/omissions: whether they could and likely would be ratified.

On admission of class action

- Public notice is served on admission to all members/depositors of the class.
- All similar applications in any jurisdiction should be consolidated into one application.
- Class members/depositors choose lead applicant; if no consensus, NCLT appoints lead applicant.
- Two class action applications for the same cause of action are not allowed.
- Cost/expenses of class action are defrayed by company or any person responsible for oppressive act.
- NCLT order binds company, members, depositors, auditor including audit firm, expert, consultant, advisor and any other person associated with company.

Section 246 - Application of winding-up fraud provisions

Section applied	Topic
Section 337	Penalty for frauds by officers.
Section 338	Liability where proper accounts are not kept.
Section 339	Liability for fraudulent conduct of business.
Section 340	Power of Tribunal to assess damages against delinquent directors etc.
Section 341	Liability under Sections 339 and 340 extends to partners/directors in firms or companies.

E. Dedicated Penalties and Consequences Section

Provision	Trigger	Penalty / consequence / deadline
242(5) read with 242(8)	Company alters MOA/AOA inconsistently with NCLT order without leave of Tribunal.	Company fine: minimum INR 1,00,000; maximum INR 25,00,000. Officer in default fine: minimum INR 25,000; maximum INR 1,00,000.
242(3)	Certified copy of NCLT order must be filed with RoC.	Filing deadline: within 30 days of order.
242(7)	Certified copy of order altering or giving leave to alter MOA/AOA must be filed with RoC.	Filing deadline: within 30 days after making of order.
243(1)(b)	MD/other director/manager agreement terminated/set aside by Tribunal order.	Cannot be appointed/act as MD/director/manager of that company for 5 years without leave of Tribunal.
243(1A)	Person declared not fit and proper under Section 242(4A).	Cannot hold directorship or management-connected office in any company for 5 years from decision unless CG with Tribunal leave permits earlier.
243(1B)	Removal from director/management-connected office.	No compensation payable for loss/termination of office.
243(2)	Knowingly acts as MD/director/manager in contravention of 5-year restriction, or other director knowingly party.	Fine up to INR 5,00,000.
245(7)	Company fails to comply with NCLT class action order.	Company fine: minimum INR 5,00,000; maximum INR 25,00,000.
245(7)	Officer in default fails to comply with NCLT class action order.	Imprisonment up to 3 years + fine minimum INR 25,000 and maximum INR 1,00,000.
245(8)	Class action application found frivolous or vexatious.	NCLT rejects with reasons; applicant pays costs to opposite party up to INR 1,00,000.
246	Fraud-related conduct in Section 241/245 proceedings.	Sections 337 to 341 apply mutatis mutandis; includes fraud by officers, improper accounts, fraudulent conduct, damages against delinquent directors, extension to partners/directors.

F. Examiner Traps and Exact Corrections

Trap	Correction
Wrong: Section 244 uses paid-up share capital.	Correct: Section 244 uses issued share capital; calls/sums due on shares must be paid.
Wrong: any single shareholder can always file under Section 241.	Correct: only if Section 244 threshold is met or waived. In very small companies one member may satisfy 1/10th member-count threshold.
Wrong: continuous losses = oppression.	Correct: continuous losses alone do not amount to oppression.
Wrong: no dividend despite profits = oppression.	Correct: failure to declare dividend or low dividend alone is not oppression.
Wrong: director removal automatically gives Section 241 relief.	Correct: even director removal cannot by itself be held oppressive/prejudicial; prejudice must be in capacity as member.
Wrong: legal heir cannot file until name appears on register.	Correct: legal heir in minority shareholder position can file even if name is not on register.
Wrong: withdrawal of consent later destroys maintainability.	Correct: consent/eligibility is judged at presentation; later withdrawal does not affect maintainability.
Wrong: class action member threshold is 10 percent.	Correct: class action Section 245 uses 100 members/5 percent total members OR 5 percent issued share capital for unlisted, 2 percent for listed.
Wrong: class action applies to banking company.	Correct: Section 245 does not apply to banking company.
Wrong: terminated MD is entitled to contractual compensation.	Correct: no compensation for loss/termination of office when removed under these provisions.

G. Case Laws / Judicial Principles Mentioned in Material

Case / principle	Exam takeaway
Foss v. Harbottle	Rule of majority; company is proper plaintiff; courts generally do not interfere in internal management when majority can ratify.
Elder v. Elder & Watson; Shanti Prasad Jain v. Kalinga Tubes	Oppression requires visible departure from standards of fair dealing and violation of conditions of fair play.
Rao (V.M.) v. Rajeshwari Ramakrishnan	Oppression must affect complainant in capacity as member, not other capacity.
Thomas Veddon V.J. v. Kuttanad Rubber Co. Ltd.	Failure to declare dividend does not amount to oppression.
Ashok Betelnut Co. P. Ltd. v. M.K. Chandrakanth	Continuous losses cannot by themselves be regarded as oppression.
Tata Consultancy Services Ltd. v. Cyrus Investments (P) Ltd.	Even director removal cannot be held oppressive/prejudicial merely because it is removal; Section 241 is member-focused.
Mahima Datla v. Dr. Renuka Datla	Civil inheritance disputes should not be decided under oppression/mismanagement if no evidence of prejudicial conduct; board meeting validity also considered.
Rajamundhry Electric Corporation v. V. Nageswar Rao	Withdrawal of consent after presentation does not affect maintainability.
John S. Dorai v. Church of South India Trust Association	Petition under Section 241 not maintainable if petitioner is neither member nor shareholder.
Lalita Rajya Lakshmi v. Indian Motor Co.	Mere denial of inspection does not by itself amount to oppression.
Sudha M. Singh v. Eagle Cones Pvt. Ltd.	Bank account operation is managerial power; not involving a director in bank operations does not itself constitute oppression/mismanagement.

H. Relevant Case Scenario Booklet Questions with Answers

Case Scenario 3 - DEF Manufacturing Pvt. Ltd. (Section 241/242 basics)

Question focus	Answer and reasoning
1. Who can apply to NCLT in oppression/mismanagement?	Answer: Members satisfying Section 244 thresholds. In the MCQ, option based on members holding at least 10 percent share capital was selected. Remember the fuller rule: lower of 100 members, 1/10th total members, or 1/10th issued share capital; or 1/5th members if no share capital.
2. Which is NOT a ground under Section 241?	Financial losses due to market conditions. Losses alone are not oppression/mismanagement.
3. Primary objective of Section 241?	To address grievances relating to oppression and mismanagement.
4. What can NCLT do if allegations are valid?	Issue orders regulating conduct of company affairs and other Section 242 remedies.
5. Meaning of oppression?	Actions that unjustly prejudice or harm certain shareholders; visible unfair prejudice and lack of fair dealing.
6. Possible mismanagement remedy?	Appointment of new independent directors can be ordered under Section 242-type powers.
7. Exclusion from decision-making?	Persistent exclusion may be argued as oppression/mismanagement where it affects shareholder/member rights and governance fairness.

Case Scenario 44 - New Age Automobiles / Jagat Electricals

Question focus	Answer and reasoning
1. Three shareholders hold only 8 percent but there are only 4 members. Is Section 241 application maintainable?	Yes. Under Section 244(1)(a), in a share capital company, threshold includes not less than 100 members or not less than 1/10th total members, whichever is less, or members holding 1/10th issued share capital. There are only 4 members; 3 members far exceed 1/10th of total members. Maintainable if calls/sums due are paid.
2. Are minority shareholders bound to sell shares merely because price is fixed by Practicing Chartered Accountant?	No. Under Section 236, acquirer/person acting in concert reaching 90 percent or more issued equity share capital offers to buy minority shares at price determined by registered valuer. Minority sale is not forced merely by a PCA valuation notice.
3. If minority agrees and consideration is deposited, when must it be disbursed?	Within 60 days. Majority shareholders deposit amount in separate bank account operated by company for at least one year for payment to minority shareholders.

Case Scenario 49 - Harekrishna Daily Needs Limited

Question focus	Answer and reasoning
1. Company has 500 members. How many members, irrespective of shareholding, must apply under Section 244?	Minimum 50 members. Lower of 100 members or 1/10th of 500 = 50. Hence 50 is enough.
2. Dharmesh alone files after rejection. What shareholding must he hold if no waiver is granted?	At least 1/10th of issued share capital. Issued capital is INR 200 lakh, so 10 percent = INR 20 lakh = 2,00,000 shares of INR 10 each.
3. MD demands compensation after NCLT terminates service agreement. Is company liable?	No. When agreement is terminated/office vacated under these provisions, no compensation for loss/termination of office is payable.
4. Can terminated MD be reappointed as MD/director/manager?	Not for 5 years from date of NCLT order without leave of Tribunal.

I. ICAI Test Your Knowledge - MCQ Digest

Q No.	Issue	Answer
1	Board did not recommend dividend due to recession; shareholders allege oppression.	Correct option: (c). Not recommending dividend in company interest does not amount to oppression/mismanagement.
2	Articles altered to empower Board to transfer shares of competing shareholder; minority challenges.	Correct option: (d) as per answer key. The module treats alteration following due process and in company interest as not validly challenged as oppression in this fact pattern.
3	Who can apply in share capital company?	Correct option: (d). Minimum 100 members or 1/10th total members, whichever is less, OR member(s) holding 1/10th issued share capital with calls paid.
4	10-shareholder company; Jasmine holds 8 percent shares but is one of 10 shareholders.	Correct option: (c). She is 1/10th of total members and can apply.
5	Shareholder eligible but dies; son inherits shares.	Correct option: (d). Son can file as legal heir inheriting eligible shares.
6	Person acts as MD without appointment; group fails issued-share threshold and fact pattern not oppression.	Correct option: (c). Acting as MD without formal appointment is not oppression in this fact pattern.

J. ICAI Descriptive Question Digest

Question	Answer frame
1. ABC Pvt Ltd has 8 shareholders; can member holding less than 1/10th share capital apply?	Yes. Under Section 244, a company with share capital can be approached by not less than 100 members or 1/10th total members, whichever is less, OR members holding 1/10th issued share capital. In 8-member company, one member satisfies 1/10th total members limb, even if shareholding is below 10 percent.
2. MNC Ltd: INR 5 crore capital, 500 members, petition by 80 members holding INR 10 lakh. Maintainable? What if 40 withdraw?	Maintainable because lower member threshold is 50 members (1/10th of 500), and 80 members exceed it. Withdrawal by 40 later does not affect maintainability because consent is reckoned at beginning.
3. 25 of 300 members hold 1/10th paid-up but 1/15th issued capital; losses and no dividend.	Petition not maintainable unless NCLT waives because 25 < 30 members (1/10th of total members), not 100, and not 1/10th issued capital. Relief also weak because losses and non-declaration of dividend alone do not amount to oppression.
4. Petitioners hold 12 percent issued capital; later some holding 5 percent withdraw.	Petition continues. Maintainability judged on facts at presentation; subsequent withdrawal does not defeat it.
5. Listed company: members hold 380 lakh out of 15000 lakh issued capital and seek class action restraint against ultra vires act.	Admissible because 380/15000 = 2.53 percent, which exceeds listed-company class action threshold of 2 percent issued share capital.

K. Answer-Writing Templates

Template 1 - Section 241/244 maintainability

1. State that application is under Section 241 for oppression/mismanagement.
2. Identify company type: share capital or no share capital.
3. Apply exact Section 244 threshold: share capital = lower of 100 members / 1/10th total members / 1/10th issued share capital; no share capital = 1/5th members.
4. Check all calls and sums due are paid.
5. Mention NCLT waiver power if threshold not met.
6. Conclude maintainable/not maintainable.

Template 2 - Is an act oppression?

7. Define oppression: burdensome, harsh, wrongful conduct with lack of probity/fair dealing affecting proprietary rights as member.
8. Check whether applicant is affected in capacity as member, not director/creditor/employee.
9. Check whether conduct is continuous and forms part of a pattern, not a single isolated business decision.
10. Apply exclusions: mere losses, no dividend, lack of confidence, bank operation disputes, commercial write-off decisions generally do not suffice.
11. If conduct includes share dilution, fraud on minority, denial of legitimate shareholder rights, or unfair exclusion, classify as oppression/mismanagement.
12. State likely NCLT relief under Section 242.

Template 3 - Class action under Section 245

13. Identify applicants: members/depositors/representative group.
14. Apply exact threshold: members share capital = 100 or 5 percent total members, whichever less, OR 5 percent issued capital unlisted / 2 percent listed; no share capital = 1/5th members; depositors = 100 or 5 percent total depositors, whichever less, OR 5 percent total deposits owed.
15. Mention Section 245 does not apply to banking company.
16. Identify relief: restraint, void resolution, damages against company/directors/auditor/expert/advisor, or other remedy.
17. Mention NCLT admission consequences: public notice, consolidation, lead applicant, no duplicate class actions, costs by company/responsible person.
18. Conclude admissible/not admissible.

L. Last-Day Revision One-Pagers

1. Section map

Section	One-line meaning
241	Grounds and persons for NCLT relief: member or CG; oppression/mismanagement/public interest/fit and proper.
242	Powers of NCLT to end oppression/mismanagement and regulate company affairs.
243	Consequences of terminated/modified agreements: no compensation, 5-year restriction, penalty.
244	Exact eligibility threshold to apply under Section 241.
245	Class action by members/depositors: exact thresholds and reliefs.
246	Sections 337 to 341 apply to Section 241 and 245 proceedings.

2. Numbers-only revision

Number	Where used
100 members	Section 244 member threshold; Section 245 class action member count; Section 245 depositor count.
1/10th total members	Section 244 for company with share capital.
1/10th issued share capital	Section 244 for company with share capital.
1/5th members	Section 244 no share capital company; Section 245 class action no share capital company.
5 percent total members	Section 245 class action member count limb.
5 percent issued share capital	Section 245 class action unlisted company shareholding limb.
2 percent issued share capital	Section 245 class action listed company shareholding limb.
5 percent total depositors	Section 245 class action depositor count limb.
5 percent total deposits owed	Section 245 class action depositor value limb.
3 months	Section 242 fraudulent preference look-back before application.
30 days	File certified copy of NCLT order / order altering MOA-AOA with RoC.
5 years	Section 243 cooling period for terminated MD/director/manager; not-fit-and-proper person restriction.
INR 1,00,000	Max cost for frivolous/vexatious class action; minimum company fine for Section 242(5) contravention; max officer fine for Section 242/245 officer contravention.
INR 25,00,000	Max company fine under Section 242(5) and Section 245 non-compliance.
3 years	Max imprisonment for officer in default for non-compliance with Section 245 class action order.

3. Final memory lines

- Oppression must affect membership rights; not every unfairness is oppression.
- Section 244 is for oppression/mismanagement petitions; Section 245 is for class action. Do not mix their thresholds.
- Issued share capital is the base under Section 244, not paid-up share capital.
- Class action has different issued capital thresholds: unlisted 5 percent, listed 2 percent.
- No dividend and losses are weak facts unless combined with unfair conduct/fraud/lack of probity.
- NCLT orders can alter governance, shares, agreements, directors, and recover undue gains.
- Termination by NCLT means no compensation and 5-year restriction without Tribunal leave.

Source material covered

- ICAI Chapter 6: Prevention of Oppression and Mismanagement.
- ICAI Case Scenario Booklet: Case Scenario 3, relevant parts of Case Scenario 44, and Case Scenario 49.
- SPOM Set A All Important Points PDF: prevention of oppression and mismanagement points including NCLT filing, 30-day filing, 5-year cooling period, class action thresholds and 3-month fraudulent preference point.
- Hemant Somani SPOM Law notes: used for exam-style reinforcement of thresholds, memory points and question-oriented framing.

Chapter 7 - Winding Up

Comprehensive exam-oriented Word notes with mega case study, exact deadlines, thresholds, penalties, case questions and revision charts

Source discipline: Prepared only from the uploaded material: ICAI Chapter 7 module, Case Scenario Booklet, SPOM Set A All Important Points PDF, and Hemant Somani SPOM Law notes. No online or external source has been used.

How to use these Chapter 7 notes

- First read the mega case study. It connects the full winding-up lifecycle: petition, NCLT order, liquidator, reports, contributories, assets, debts, fraudulent transactions, CLDUA Account and dissolution.
- Then memorise the exact deadlines table. Chapter 7 is deadline-heavy: 7 days, 30 days, 60 days, 90 days, 180 days, 3 weeks, 3 months, 6 months, 1 year, 2 years, 5 years and 15 years are all testable.
- Use the penalties section for MCQs and last-day revision. I have written exact limits instead of vague phrases like prescribed threshold wherever the uploaded material gives a limit.
- Read the Case Scenario 43 questions after the main concepts. They are the most directly chapter-relevant case booklet questions for winding up.

Core memory: Section 271 = grounds of winding up by Tribunal. Section 272 = who can petition. Section 273 = powers of Tribunal. Sections 275-277 = liquidator appointment, removal and intimation. Sections 281-282 = liquidator report and Tribunal directions. Sections 285-300 = contributories/liquidator powers. Sections 324-327 = debts and priority. Sections 328-335 = avoidable/void transactions. Sections 352-358 = unpaid distributions, returns, dissolution void and limitation.

A. Mega Integrated Case Study - The Complete Winding Up Story

Facts

Bharat Loomtex Limited (BLL) is a public company incorporated in 2010. It manufactures textiles and has 1,000 members. Its issued capital is INR 4 crore. 500 members have partly paid shares and the final call of INR 3 per share is unpaid. For several years, two directors have siphoned money through related entities, created fictitious expenses, and sold company property to an entity controlled by the Managing Director's son. The company has also defaulted in filing financial statements and annual returns for 5 consecutive financial years. Creditors and contributories lose confidence and move for winding up.

- The company passes no voluntary winding-up route under the Companies Act because voluntary winding-up provisions under Companies Act, 2013 are omitted; relevant voluntary liquidation is under IBC, 2016.
- Certain contributories file a winding-up petition before NCLT alleging fraud, misfeasance and just and equitable grounds.
- Two legal heirs who inherited shares from their deceased father also sign the petition although they held shares only for 3 months after succession.
- The Registrar also considers filing a petition because of five consecutive financial years default in financial statements/annual returns, but needs prior Central Government sanction and opportunity to the company.
- The NCLT is satisfied that winding up is justified and passes winding-up order. It appoints a Company Liquidator who has to file a conflict/lack of independence declaration within 7 days of appointment.
- The Tribunal must send intimation of appointment/winding-up order to the Company Liquidator/Provisional Liquidator and Registrar within 7 days of the order.
- The Registrar endorses the order in records and notifies it in Official Gazette; if BLL were listed, RoC would also intimate stock exchanges.
- The Company Liquidator applies within 3 weeks for constitution of winding-up committee and submits report to NCLT within 60 days from the order.
- The Company Liquidator investigates whether property sold 5 months before winding-up application was fraudulent preference or a transfer not in good faith.
- Some officers hide books and assets. The Tribunal can summon, examine, order delivery of property and, if someone is trying to leave India/abscond, cause detention/seizure under Section 301.
- Unpaid dividends and undistributed assets remain unclaimed for 6 months after declaration, triggering transfer to the Company Liquidation Dividend and Undistributed Assets Account.
- If winding up is not completed within 1 year, the liquidator must apply within 2 months to NCLT and RoC explaining reasons for delay.

Integrated legal analysis

Issue in the story	Provision triggered / exam memory point
1. Meaning of winding up	Winding up means winding up under Companies Act, 2013 or liquidation under IBC, 2016, as applicable. Do not confuse Companies Act winding up by Tribunal with IBC liquidation. Inability to pay debts as Companies Act winding-up ground has been omitted.
2. Mode covered here	Part I of Chapter XX covers winding up by Tribunal under Sections 271-303. Part II voluntary winding-up under Companies Act Sections 304-323 is omitted.
3. Grounds under Section 271	Special resolution to wind up; act against sovereignty/security/public order/decency/morality etc.; fraud/unlawful purpose/misfeasance/misconduct on Registrar/authorised person application; default in filing financial statements or annual returns for immediately preceding 5 consecutive financial years; just and equitable ground.
4. Petitioners under Section 272	Company; contributory/contributories; all or any company + contributory persons; Registrar; person authorised by Central Government; CG/SG where company acted against national interest under Section 271(b).
5. Contributory eligibility	Contributory may petition even if shares are fully paid, company has no assets, or no surplus assets. Shares must be originally allotted/held and registered in his name for at least 6 months during 18 months before commencement, or must have devolved on him through death of former holder.
6. Registrar petition	Registrar can present petition except on ground of special resolution under Section 271(a). Prior sanction of Central Government is required, and CG must give company reasonable opportunity of representation before sanction.
7. Company petition	Company petition must be accompanied by statement of affairs in prescribed form and manner.

8. Copy to Registrar	Copy of petition must also be filed with Registrar. Registrar submits views to Tribunal within 60 days of receipt of petition.
9. NCLT order under Section 273	Tribunal may dismiss, make interim order, appoint provisional liquidator, make winding-up order, or any other order. Order to be made within 90 days from presentation of petition.
10. Prima facie statement of affairs	Where petition is by person other than company and prima facie case exists, company must file objections with statement of affairs within 30 days of order; Tribunal can allow further 30 days for contingency/special circumstances.
11. Non-filing SOA	Company forfeits right to oppose petition. Responsible directors/officers face imprisonment up to 6 months or fine INR 25,000 to INR 5,00,000 or both.
12. Liquidator appointment	At time of passing winding-up order, Tribunal appoints Official Liquidator or liquidator from panel/insolvency professionals registered under IBC as Company Liquidator. Provisional Liquidator/Company Liquidator is appointed from registered insolvency professionals.
13. Declaration by liquidator	Liquidator must file declaration within 7 days from appointment disclosing conflict of interest or lack of independence. Obligation continues throughout appointment.
14. Removal of liquidator	Grounds: misconduct; fraud/misfeasance; professional incompetence/failure of due care/diligence; inability to act; conflict of interest/lack of independence. Opportunity of being heard must be given.
15. Intimation and RoC action	Tribunal intimates order within 7 days. Registrar endorses in records and notifies in Official Gazette; for listed company, also intimates stock exchange(s).
16. Winding-up committee	Within 3 weeks from winding-up order, Company Liquidator applies to Tribunal for winding-up committee: Official Liquidator attached to Tribunal + nominee of secured creditors + professional nominated by Tribunal.
17. Liquidator report	Within 60 days from winding-up order or appointment of Company Liquidator, he submits report with assets, liabilities, debts due, guarantees, contributories/unpaid calls, IP/trademarks, contracts, legal cases, fraud in formation/promotion etc., and viability/value maximisation.
18. Advisory Committee	Tribunal may direct advisory committee of not more than 12 members, being creditors/contributories or others. Liquidator convenes creditors/contributories meeting within 30 days from winding-up order. Company Liquidator chairs advisory committee.
19. Periodical reports	Company Liquidator makes periodical reports and in any case a report at the end of each quarter. Tribunal may review orders on application by Company Liquidator.
20. Contributories	Tribunal settles list of contributories unless unnecessary. Past member not liable if ceased to be member for 1 year or more before commencement; not liable for debts after he ceased; limited by shares = only unpaid amount on shares.
21. Director/manager unlimited liability	Director/manager with unlimited liability may make further contribution as if member of unlimited company, but not if ceased office for 1 year or more before commencement, not for post-cessation debts, and only if Tribunal deems necessary.
22. Stay of suits	After winding-up order/provisional liquidator, no suit/legal proceeding commences or continues against company except with leave of Tribunal; leave application to be disposed within 60 days. Does not apply to appeal pending before Supreme Court/High Court.
23. Priority payments	Workmen dues and secured creditors with pari passu charge have overriding priority under Section 326; preferential payments under Section 327 include government taxes due within 12 months before relevant date, wages/salary for 4 months up to limit, holiday remuneration, ESI, death/disablement compensation, PF/pension/gratuity/welfare fund, investigation expenses.
24. Fraudulent preference	If a creditor/surety/guarantor is put in a better position within 6 months before winding-up application, Tribunal may restore position and declare transaction invalid.
25. Transfers not in good faith	Transfer/delivery not in ordinary course or not in favour of good-faith purchaser/encumbrancer for valuable consideration is void against liquidator if within 1 year before petition.
26. Floating charge	Floating charge created within 12 months immediately before commencement of winding up is invalid unless company was solvent immediately after creation; even then valid only to cash paid at/after creation + 5% interest.
27. Onerous property	Company Liquidator may, with Tribunal leave, disclaim onerous property within 12 months from commencement or extended period allowed by Tribunal.
28. Post-commencement transfers	In Tribunal winding up, disposition of company property/actionable claims, transfer of shares, or alteration in member status after commencement is void unless Tribunal orders otherwise.
29. Attachments/executions	Attachment, distress, execution or sale without Tribunal leave after commencement is void; not applicable to government tax/impost/dues recovery proceedings.
30. CLDUA account	Unpaid dividends/undistributed assets unclaimed for 6 months after declaration are transferred within 14 days to Company Liquidation Dividend and Undistributed Assets Account; if unclaimed for 15 years, transferred to Central Government general revenue account.
31. Dissolution void	Tribunal may declare dissolution void within 2 years from date of dissolution, on application by liquidator or any other person appearing interested.
32. Commencement of winding up	Winding up by Tribunal is deemed to commence at time of presentation of petition for winding up.

What-if scenarios from the mega case

If this happens...	Then remember...
If the company defaults for only 4 consecutive financial years in filing financial statements/annual returns	Section 271(d) ground is not satisfied. It requires immediately preceding 5 consecutive financial years.
If the company itself petitions for winding up without statement of affairs	Company petition is defective because company petition must be accompanied by statement of affairs.
If Registrar files petition without Central Government sanction	Invalid; prior sanction of CG is required and CG must give company reasonable opportunity of representation.
If NCLT refuses winding up only because all assets are mortgaged or company has no assets	NCLT cannot refuse only on that ground.
If NCLT thinks another remedy is available on just and equitable ground	NCLT may refuse winding up if petitioners are acting unreasonably in seeking winding up instead of other remedy.
If Provisional Liquidator is appointed without notice to company	Normally notice + opportunity is required; Tribunal may dispense with notice for special reasons recorded in writing.
If liquidator has shareholding/conflict of interest	Appointment is not automatically void, but declaration must be filed within 7 days disclosing conflict/lack of independence.
If advisory committee has 13 members	Invalid; maximum is 12 members.
If a suit is pending in High Court appeal at date of winding-up order	Section 279 leave requirement does not apply to proceeding pending in appeal before Supreme Court or High Court.
If property is sold to MD son company 5 months before winding-up application causing loss	Potential fraudulent preference/invalid transaction under Section 328, depending on facts; liquidator can seek restoration.
If transfer of property occurred 14 months before petition	Section 329 one-year look-back will not apply, though other fraud provisions may be examined if facts support them.
If unpaid distributions remain unclaimed for 6 months	Transfer to Company Liquidation Dividend and Undistributed Assets Account within 14 days.
If CLDUA amount is unclaimed for 15 years	Transfer to Central Government general revenue account.
If a liquidator retains money that should be transferred	Liquidator is liable to pay 12% p.a. interest and other consequences.
If dissolution order needs to be reopened after 3 years	Section 356 permits voiding dissolution only within 2 years from date of dissolution.

B. Exact Deadlines, Limits, Thresholds and Monetary Amounts

This table is intentionally numerical. Do not revise this chapter with vague phrases like "prescribed limits"; the examiner often tests exact periods and amounts.

Provision / source	Trigger	Exact limit / threshold / time period
Section 271(d)	Default in filing financial statements or annual returns	Immediately preceding 5 consecutive financial years
Section 272(2)	Contributory eligibility by holding period	Shares originally allotted/held and registered in name for at least 6 months during 18 months immediately before commencement OR devolved through death of former holder
Section 272(3)	Registrar petition	Prior Central Government sanction; company must get reasonable opportunity of representation before sanction
Section 272(5)	Registrar views on winding-up petition	Registrar submits views to Tribunal within 60 days of receipt of petition
Section 273(1)	Tribunal order on petition	Within 90 days from date of presentation of petition
Section 274(1)	Company objections + statement of affairs where petition is by person other than company	Within 30 days of Tribunal order; further 30 days may be allowed for contingency/special circumstances
Section 274(3)	Directors/officers submit completed and audited books to liquidator	Within 30 days of winding-up order
Section 275(5)	Liquidator declaration of conflict/lack of independence	Within 7 days from date of appointment
Section 277(1)	Tribunal intimation to liquidator and Registrar	Within period not exceeding 7 days from passing of order
Section 277(4)	Company Liquidator application for winding-up committee	Within 3 weeks from date of passing winding-up order
Section 277(6)	Report/minutes of winding-up committee to Tribunal	Monthly basis until final report for dissolution is submitted
Section 279	Tribunal leave application to commence/continue legal proceeding	Application seeking leave to be disposed of within 60 days
Section 281	Company Liquidator report to Tribunal	Within 60 days from the order
Section 287(2)	Advisory committee size	Not more than 12 members
Section 287(3)	Liquidator meeting for advisory committee selection	Within 30 days from date of winding-up order
Section 288	Periodical report of Company Liquidator	At the end of each quarter
Section 294	Company Liquidator accounts	Proper books; accounts audited in prescribed manner; one copy filed with Tribunal and one with Registrar
Section 301	Detention/seizure to prevent absconding/evasion	Until such time as Tribunal may order
Section 302	Registrar record after dissolution order	Tribunal forwards order within 30 days from date of order; Registrar records minute and company is dissolved from date of order
Section 326	Overriding preferential payments - workmen dues and secured creditors	Workmen dues + secured creditors debt rank pari passu to extent of workmen portion of security
Section 327	Government taxes/revenues/cess/rates	Due and payable within 12 months before relevant date
Section 327	Employee wages/salary preferential period	Services rendered during 4 months before relevant date; amount subject to Central Government notified limit
Section 328	Fraudulent preference look-back	Anything putting creditor/surety/guarantor in better liquidation position within 6 months before making winding-up application
Section 329	Transfer not in good faith to be void	Within 1 year before presentation of winding-up petition
Section 332	Floating charge validity look-back	Floating charge within 12 months immediately before commencement invalid unless company solvent immediately after creation; valid only to cash paid + 5% interest
Section 333	Disclaimer of onerous property	Within 12 months after commencement of winding up or extended period allowed by Tribunal
Section 336	Officer offences by concealment/removal of property	Property/debt threshold: INR 1,000 or more in specified offences
Section 347	Disposal of books/papers after dissolution	No responsibility after 5 years from dissolution unless earlier direction/order permits disposal
Section 352	Unpaid dividend/undistributed assets unclaimed	If unpaid/unclaimed for 6 months after declaration, transfer within 14 days to CLDUA Account
Section 352	CLDUA claim settlement by Registrar	Registrar pays within 60 days of claim; if not, reports reasons to Regional Director
Section 352	CLDUA amount unclaimed	After 15 years, transfer to Central Government general revenue account
Section 352	Liquidator retaining amount required to be transferred	Interest at 12% per annum + other consequences
Section 353	If winding up not concluded within 1 year	Company Liquidator must file statement in prescribed form within 2 months after expiry of 1 year and every subsequent year until winding up concluded
Section 356	Void dissolution order	Application within 2 years from date of dissolution
Section 357	Commencement of winding up by Tribunal	At the time of presentation of petition for winding up
Important Points PDF	Liquidator report after winding-up order	Report within 60 days from winding-up order
Important Points PDF	NCLT order on winding-up petition	Within 90 days from receipt/presentation of petition

C. Section-wise Comprehensive Notes

Section	Topic	Exam-ready rule
270	Modes of winding up	This Part deals with winding up by Tribunal. Winding up under Companies Act and liquidation under IBC are both covered by definition, as applicable.
271	Circumstances of winding up by Tribunal	Special resolution; national interest/public order/decency/morality; fraud/unlawful purpose/misfeasance/misconduct; 5 consecutive FY filing default; just and equitable ground.
272	Petition for winding up	Who can petition, contributory eligibility, Registrar sanction, company statement of affairs, copy to Registrar and Registrar views within 60 days.
273	Powers of Tribunal	Dismiss, interim order, appoint provisional liquidator, winding-up order, any other order; order within 90 days; notice before provisional liquidator unless special recorded reasons.
274	Statement of affairs	If petition is by person other than company, Tribunal directs objections + statement of affairs within 30 days, extendable by 30 days. Non-filing forfeits right to oppose and triggers punishment.
275	Company Liquidator appointment	Tribunal appoints Official Liquidator/liquidator from panel/insolvency professionals; declaration within 7 days; provisional liquidator can become Company Liquidator.
276	Removal and replacement of liquidator	Grounds include misconduct, fraud/misfeasance, incompetence/due care failure, inability, conflict/lack of independence. Tribunal can recover loss/damage from liquidator.
277	Intimation, winding-up committee	Tribunal intimation within 7 days; RoC Gazette notification; discharge notice to employees except business continued; winding-up committee within 3 weeks; monthly reports.
278	Effect of winding-up order	Operates in favour of all creditors and all contributories as if made on joint petition.
279	Stay of suits	No suit/proceeding commences or continues except with Tribunal leave. Leave application disposed within 60 days. Not applicable to appeals pending before Supreme Court/High Court.
280	Jurisdiction of Tribunal	Tribunal handles suits/proceedings by/against company, claims, fast-track merger applications, priorities and all winding-up questions before/after order.
281	Liquidator report	Report within 60 days: assets, capital, liabilities, debts due, guarantees, contributories/unpaid calls, IP, contracts, legal cases,

		fraud, viability/value maximisation.
282	Directions on liquidator report	Tribunal fixes time limit for completion/dissolution; may order sale as going concern/assets; may appoint sale committee; may order investigation and protect assets.
283	Custody of property	Liquidator takes custody/control of all property, effects, actionable claims. Property deemed in Tribunal custody from winding-up order.
284	Cooperation with liquidator	Promoters, directors, officers, employees/former employees/persons associated must cooperate; liquidator may apply to Tribunal for directions on non-cooperation.
285	List of contributories	Tribunal settles list, rectifies register and applies assets; distinguishes own right vs representative contributors; limited by shares liability capped at unpaid amount.
286	Directors/managers obligations	Unlimited-liability director/manager may contribute further; exceptions for ceasing 1 year earlier, post-cessation debts, and Tribunal necessity.
287	Advisory committee	Not more than 12 members; creditors/contributories/others; meeting within 30 days; right to inspect; Company Liquidator chairs.
288	Periodical reports	Liquidator reports to Tribunal at end of each quarter; Tribunal may review orders on liquidator application.
290	Powers/duties of liquidator	Carry on business for beneficial winding up; execute documents; sell property; sell business; raise money on security; institute/defend suits; inspect records; prove claims; draw instruments; take out letters of administration; appoint agent; perform necessary acts.
291	Professional assistance	Liquidator may appoint professional assistance with Tribunal sanction.
292	Exercise and control	Liquidator acts subject to Tribunal control. Creditors/contributories can apply regarding exercise/proposed exercise of powers.
293	Books by liquidator	Company Liquidator keeps proper books as prescribed; entries/minutes of proceedings at meetings and other matters.
294	Audit of liquidator accounts	Liquidator maintains proper books; accounts audited; copies filed with Tribunal and Registrar. Tribunal can inspect and enforce audit requirements.
295	Debts by contributory and set-off	Tribunal can order contributory to pay debts due from him. Set-off may be allowed subject to nature of company and debts.
296	Power to make calls	Tribunal can make calls on contributories to extent of liability for debts, costs and adjustments.
297	Adjustment of rights	Tribunal adjusts rights of contributories among themselves and distributes surplus.
298	Costs	If assets insufficient, Tribunal orders payment of winding-up costs/charges/expenses in such priority as it thinks just.
299	Summon persons	Tribunal may summon officers/persons suspected of having company property/books or being indebted/capable of information; can examine on oath and order payment/delivery.
300	Examination of promoters/directors	If liquidator reports fraud in promotion/formation/business/conduct, Tribunal may direct person/officer to attend and be examined.
301	Arrest / absconding	If contributory/person with property/accounts/papers is about to leave India/abscond/remove/conceal property to evade calls or examination, Tribunal may detain and seize books/papers/movable property.
302	Dissolution by Tribunal	Liquidator applies when affairs completely wound up; Tribunal orders dissolution; order sent to RoC within 30 days; company dissolved from date of order.
303	Appeals pre-Act	Earlier winding-up orders remain enforceable; appeals lie before authority competent before commencement.
324	Debts admitted to proof	All debts payable on contingency and all present/future, certain/contingent/ascer-tained/damages claims are admissible to proof with just estimate.
326	Overriding preferential payments	Workmen dues and secured creditors rank pari passu; workmen portion formula applies. Not applicable in liquidation under IBC.
327	Preferential payments	Specified dues get priority: taxes, wages/salaries, holiday remuneration, ESI, compensation, PF/pension/gratuity/welfare fund, investigation expenses. Not applicable in IBC liquidation.
328	Fraudulent preference	Preference to creditor/surety/guarantor putting him in better liquidation position within 6 months before application can be invalidated/restored.
329	Transfers not in good faith	Transfers/deliveries not in ordinary course and not to good-faith purchaser/encumbrancer for value within 1 year before petition are void against liquidator.
330	Certain transfers to be void	Transfer/assignment of all properties/assets to trustees for benefit of all creditors is void.
331	Fraudulently preferred persons	Rights/liabilities of persons fraudulently preferred are determined; guarantees/security may be affected.
332	Floating charge	Floating charge within 12 months immediately before commencement invalid unless solvency immediately after creation; valid only to cash paid + 5% interest.
333	Disclaimer of onerous property	With Tribunal leave, liquidator can disclaim land burdened with onerous covenants, unprofitable contracts, or unsaleable/not readily saleable property.
334	Transfers after commencement void	Post-commencement dispositions, share transfers, member status alterations void unless Tribunal orders otherwise.
335	Attachments/executions void	Attachment/distress/execution/sale without Tribunal leave after commencement void, except government tax/impost/dues recovery.
336	Offences by officers in liquidation	Non-disclosure, non-delivery of property/books, concealment/removal of property INR 1,000+, material omissions, false entries, fictitious losses, false representation etc.
344	Statement company in liquidation	Invoices, orders for goods/business letters and company websites must contain statement that company is being wound up.
345	Books and papers as evidence	Books and papers of company and liquidator are prima facie evidence of truth of matters recorded between contributories.
346	Inspection by creditors/contributories	Creditors and contributories may inspect books/papers subject to Tribunal directions.
347	Disposal of books/papers	After affairs completely wound up/about to be dissolved, books may be disposed as Tribunal directs; no responsibility after 5 years from dissolution.
352	CLDUA Account	Unpaid dividends/undistributed assets after 6 months transferred within 14 days to account in scheduled bank; claims through Registrar; unclaimed for 15 years go to CG general revenue account.
353	Liquidator returns	If winding up not concluded within 1 year, statement to Tribunal/RoC within 2 months after year-end and each year thereafter.
354	Meetings for wishes	Tribunal may direct meetings of creditors/contributories; chairperson reports result to Tribunal.
355	Affidavits	Affidavits may be sworn before court/Tribunal/person as prescribed.
356	Dissolution void	Tribunal can declare dissolution void within 2 years from date of dissolution.
357	Commencement	Winding up by Tribunal commences at presentation of petition.
358	Limitation exclusion	Period from commencement of winding up to one year after winding-up order excluded for computing limitation for suit/application by company being wound up.

D. Dedicated Penalties, Punishments and Consequences Section

Provision	Default / trigger	Penalty / legal consequence
Section 274(2)	Company fails to file statement of affairs directed by Tribunal	Company forfeits right to oppose petition.
Section 274(4)	Director/officer contravenes Section 274	Imprisonment up to 6 months OR fine minimum INR 25,000 and maximum INR 5,00,000 OR both.
Section 274(5)	Who can file complaint before Special Court	Registrar, provisional liquidator, Company Liquidator or any person authorised by Tribunal.
Section 276(3)	Liquidator causes loss/damage due to fraud/misfeasance/failure of due care/diligence	Tribunal may recover or cause recovery of loss/damage from liquidator and pass other orders.
Section 277(3)	Winding-up order	Deemed notice of discharge to officers, employees and workmen, except when business is continued.
Section 279	Suit/proceeding after winding-up order/provisional liquidator without Tribunal leave	Cannot commence/proceed except with leave of Tribunal. Leave application disposed within 60 days.
Section 301	Contributory/person likely to leave India/abscond/remove/conceal property to evade calls/examination	Tribunal may detain contributory/person and seize books, papers and movable property until Tribunal orders.
Section 302(3)	Dissolution order	Company dissolved from date of Tribunal order after Registrar records minute.
Section 328	Fraudulent preference within 6 months	Tribunal may declare transaction invalid and restore position.
Section 329	Transfer not in good faith within 1 year before petition	Void against Company Liquidator.
Section 330	Transfer/assignment of all properties/assets to trustees for benefit of all creditors	Void.
Section 332	Floating charge within 12 months before commencement	Invalid unless company solvent immediately after creation; valid only to cash paid + 5% interest.
Section 334	Disposition of property/actionable claim, transfer of shares, alteration in member status after commencement	Void unless Tribunal orders otherwise.
Section 335	Attachment/distress/execution/sale without Tribunal leave after commencement	Void, except recovery of tax/impost/government dues.
Section 336	Officer offences in liquidation	Includes failure to disclose/deliver property/books, concealment/removal of property INR 1,000+, material omissions, false entries etc.; punishment applies as per section.
Section 344	Failure to state company is being wound up in invoices/orders/letters/websites	Company and officers may be liable as provided in section.
Section 347	Books and papers after dissolution	No responsibility of company/liquidator/person entrusted after 5 years from dissolution.
Section 352	Liquidator retains money which should go to CLDUA Account	Interest at 12% p.a. and other consequences.
Section 356	Dissolution declared void	Tribunal order can revive proceedings; certified copy filed with Registrar as directed.

E. Priority of Payments and Workmen Portion

1. Overriding preferential payments - Section 326

In winding up under Companies Act, 2013, workmen dues and debts due to secured creditors are paid in priority to all other debts and rank pari passu to the extent of the workmen portion in the secured creditor security. Sections 326 and 327 do not apply in liquidation under IBC, 2016.

Component	Meaning / formula
Workmen dues	Wages/salary, accrued holiday remuneration, compensation for death/disablement, PF/pension/gratuity/welfare fund dues etc. of workmen.
Workmen portion of security	Value of security x Workmen dues / (Workmen dues + debts due to secured creditors).
Effect	Workmen portion is charged pari passu on secured creditor security. Secured creditor receives balance after workmen portion.
If assets insufficient	Priority debts abate proportionately/equally as applicable.

2. Preferential payments - Section 327

Preferential payment category	Exact exam point
Government/local authority revenues, taxes, cesses, rates	Due and payable within 12 months before relevant date.
Employee wages/salary	For services rendered during 4 months before relevant date, subject to Central Government notified limit.
Accrued holiday remuneration	Payable to employee or person claiming through him in case of death.
ESI contribution	Amounts due from company as employer.
Compensation for death/disablement	Under Employees Compensation law, subject to exceptions.
PF, pension, gratuity and welfare funds	All sums due from company to employees/workmen welfare funds.
Investigation expenses	Expenses of investigations under Sections 213 and 216 so far as payable by company.

3. TYK computation pattern

If realised secured assets = INR 4,00,00,000; secured creditor debt = INR 5,00,00,000; workmen dues = INR 1,25,00,000:

Step	Calculation
Workmen portion	4,00,00,000 x 1,25,00,000 / (1,25,00,000 + 5,00,00,000) = INR 80,00,000.
Secured creditor balance from security	INR 4,00,00,000 - INR 80,00,000 = INR 3,20,00,000.
Government dues/unsecured creditors	No amount from this security realisation remains for them in the given TYK facts.

F. Case Scenario Booklet - Chapter-Relevant Questions with Answers

Directly relevant booklet case: Case Scenario 43 - Binjoy Textiles Limited. It covers contributory petition, partly paid shareholders, compensation to MD during winding up, liquidator declaration, and Registrar action.

Case question	Answer + provision logic

Q1. Rohan and Sharad inherited 2,000 partly paid shares on death of father and signed winding-up petition. Eligible?	Answer: Yes, option (d). A contributory can petition where the shares have devolved on him through death of a former holder. The 6 months during 18 months holding requirement is an alternative where shares are originally allotted/held/registered in his name.
Q2. 350 of 500 partly paid shareholders pay unpaid contribution. Are remaining 150 absolved?	Answer: No, option (d). Every unpaid shareholder, being a contributory, remains liable to pay to the extent of unpaid amount on his shares, irrespective of shareholding. Section 296 empowers Tribunal to make calls.
Q3. Can company compensate MD Raman for loss of office because winding up ended his term?	Answer: No, option (b). No compensation for loss of office is payable where company is being wound up, whether by Tribunal order or voluntarily, if winding up was due to negligence/default of director. Facts state Raman was negligent/silent party.
Q4. Liquidator Dilip appointed on 21 Dec 2021 has conflict of interest. By when must declaration be filed?	Answer: 28 Dec 2021, option (a). Declaration in Form WIN 10 disclosing conflict/lack of independence must be filed with Tribunal within 7 days from appointment.
Q5. Role of RoC on receipt of winding-up order intimation?	Answer: Option (c). RoC makes endorsement in records relating to company and notifies in Official Gazette. If listed, RoC also intimates stock exchange(s).

G. ICAI Test Your Knowledge - MCQ Digest

MCQ	Topic	Correct answer
1	Liquidator report to Tribunal after winding-up order	Option (c): within 60 days from winding-up order.
2	Winding-up order operates in favour of whom?	Option (c): all contributories and creditors.
3	Provisional Liquidator has shareholding/conflict	Option (d): may be appointed but must disclose by declaration within 7 days.
4	Incorrect ground for removal of PL/CL	Option (a): independent working/no conflict is not a removal ground.
5	Periodical report frequency/review	Option (d): at end of each quarter; Tribunal may review on application by Company Liquidator.

H. ICAI Test Your Knowledge - Descriptive Answer Templates

Question pattern	Answer template
1. Sale of property to company in which MD son is interested within 6 months	Apply Section 328. If transfer/payment/execution etc. within 6 months before winding-up application gives preference or causes loss and facts show fraudulent preference, Tribunal may declare transaction invalid and restore position. Here sale on 15 Oct 2021 and winding-up order 10 Mar 2022 is within 6 months; sale caused INR 50 lakh loss and transferee is linked to MD son, so liquidator can seek invalidation/restoration.
2. Computation of workmen portion	Use workmen portion formula. Workmen portion = value of security realised x workmen dues / (workmen dues + secured creditor debt). With INR 4 crore realisation, INR 1.25 crore workmen dues and INR 5 crore secured debt, workmen portion = INR 80 lakh; secured creditor receives INR 3.20 crore. Nothing remains for government dues/unsecured creditors in the given facts.
3. Contributory/person absconding	Apply Section 301. If a contributory or person having company property/accounts/papers is about to leave India/abscond/remove/conceal property to evade payment of calls or avoid examination, Tribunal may detain him and seize books/papers/movable property until Tribunal orders. Six-month detention in the question is valid because Tribunal can detain until such time as it orders.
4. Workers appeal and priority	Section 279 requires Tribunal leave for suits/proceedings after winding-up order, but not appeals pending before Supreme Court/High Court. Workers dues are protected by Sections 326/327 and rank in priority/pari passu with secured creditors to the extent of workmen portion.
5. RoC petition where company defaulted for 4 years only	RoC action is invalid on Section 271(d) ground because default must be in financial statements or annual returns for immediately preceding 5 consecutive financial years. Also, Section 273 order must be made within 90 days from presentation of petition.

I. Important Points PDF + Hemant Notes Integration

Point	Exact memory line
Winding up commencement	Winding up by Tribunal commences from date on which petition/application for winding up is filed.
ROC petition	If ROC files petition for winding up, prior sanction of Central Government is required.
Advisory Committee	NCLT may constitute advisory committee to guide liquidator, maximum 12 members.
NCLT order	NCLT shall pass order within 90 days from presentation/receipt of winding-up petition.
Intimation after order	Within 7 days of order, NCLT intimates Company Liquidator/Provisional Liquidator and ROC.
No conflict declaration	Liquidator submits declaration of no conflict/lack of independence within 7 days of appointment.
Liquidator report	Liquidator report within 60 days from winding-up order.
Winding-up committee	Within 3 weeks of winding-up order, liquidator applies to NCLT for constitution of winding-up committee.
Onerous property	Liquidator may disclaim onerous property within 12 months, subject to law/leave.
Accounts of receipts/payments	Liquidator presents account of receipts and payments at least twice every year as per important points.
Priority payment	Workmen dues for two years preceding winding up and secured creditors are priority focus; Section 327 for preferential payments.
Fraudulent preference	Preference within 6 months before winding up is void/invalid if statutory conditions are met.
Transfer not in good faith	Transfers not in good faith within 1 year prior to winding up are void.
Floating charge	Floating charge created within 12 months before winding up is invalid unless company solvent; valid only to cash received + 5% interest.
No responsibility after 5 years	Company/liquidator has no responsibility for books/papers after 5 years from dissolution unless otherwise directed.
Delay beyond 1 year	If winding up not completed within 1 year, liquidator applies/files statement within 2 months stating reasons for delay.
CLDUA Account	Unpaid dividends/undistributed assets remaining unpaid for 6 months transferred to CLDUA Account; unclaimed after 15 years transferred to CG general revenue account.
Claim from ROC	Person entitled may claim from ROC; ROC should settle within 60 days, failing which report to RD with reasons.
Liquidator retention interest	Liquidator retaining amount is liable for 12% p.a. interest and other consequences.
Void dissolution	NCLT may declare dissolution void within 2 years from date of dissolution.
Hemant abbreviations	WUP = Winding Up; PL = Provisional Liquidator; CL = Company Liquidator; OL = Official Liquidator; WUC = Winding Up Committee; SOA = Statement of Affairs; DAMFS = Destroyed, Altered, Mutilated, Falsified, Secreted.

J. Examiner Traps

Trap	Correct answer
Inability to pay debts	Not a Companies Act winding-up ground now; provisions for application for winding up for inability to pay debts have been omitted.
Voluntary winding up	Companies Act Part II Sections 304-323 omitted; voluntary liquidation is under IBC Section 59.
4 years filing default	Not enough for Section 271(d); needs immediately preceding 5 consecutive financial years.
Registrar petition	Prior CG sanction + company opportunity to represent are mandatory.
Contributory with fully paid shares	Can still petition. Full payment does not bar petition.
Inherited shares	Contributory can petition where shares devolved on death of former holder even if he personally did not hold 6 months.
NCLT order timing	90 days from presentation of petition.
Liquidator declaration	7 days from appointment, not from first meeting.
Advisory committee vs winding-up committee	Advisory committee max 12; winding-up committee comprises OL attached to Tribunal + secured creditor nominee + professional nominated by Tribunal.
Appeal in Supreme Court/High Court	Section 279 stay does not apply to proceedings pending in appeal before Supreme Court or High Court.
Fraudulent preference vs transfer not in good faith	Fraudulent preference = 6 months; transfer not in good faith = 1 year.
Floating charge	Look-back = 12 months; exception if solvent; valid only for cash paid + 5% interest.
CLDUA	6 months unpaid -> transfer within 14 days. 15 years unclaimed -> CG revenue. ROC settlement 60 days. Liquidator interest 12% p.a.
Void dissolution	2 years from dissolution date, not from discovery of mistake.

K. One-page Last-day Revision Chart

Section	Last-minute memory line
271	Grounds: SR, national interest, fraud, 5-year filing default, just and equitable
272	Petitioners: company, contributory, Registrar, CG-authorised person, CG/SG for national interest; contributory 6 months/18 months or death devolution
273	NCLT powers; order within 90 days
274	Statement of affairs: 30 days + further 30; non-filing forfeits right to oppose; punishment up to 6 months/INR 25k-5L
275	Liquidator appointment; declaration within 7 days
276	Removal grounds: misconduct, fraud/misfeasance, incompetence/due care failure, inability, conflict/lack independence
277	Intimation within 7 days; WUC within 3 weeks; monthly WUC reports
278	Order favours all creditors and contributories
279	No proceedings without leave; leave disposal 60 days; SC/HC appeal exception
281	Liquidator report within 60 days
287	Advisory committee max 12; meeting within 30 days; CL chairs
288	Quarterly reports
290	Liquidator powers: run, sell, sue, inspect, raise, prove, draw, appoint agents etc.
302	Dissolution; order sent to RoC within 30 days
326	Workmen + secured creditors pari passu
327	Preferential payments: taxes 12 months; wages 4 months etc.
328	Fraudulent preference 6 months
329	Transfer not in good faith 1 year
332	Floating charge 12 months; cash + 5%
333	Onerous property disclaimer 12 months
334/335	Post-commencement transfers/attachments void unless Tribunal leave/order
347	No responsibility after 5 years from dissolution
352	CLDUA: 6 months, 14 days, 15 years, 60 days, 12% p.a.
353	If not completed in 1 year, file within 2 months
356	Dissolution void within 2 years
357	Commencement = petition presentation
358	Exclusion: commencement to 1 year after winding-up order for limitation

L. Answer-writing Templates

Template 1 - Winding-up petition validity

State Section 271 ground, then Section 272 petitioner eligibility, then procedural requirement (CG sanction for ROC / statement of affairs for company / contributory holding or death-devolution), then conclude validity.

Template 2 - Liquidator appointment or declaration

State Section 275: Tribunal appoints Official Liquidator or insolvency professional as Company Liquidator/Provisional Liquidator; declaration of conflict/lack independence within 7 days; apply facts and conclude.

Template 3 - Fraudulent transaction

Identify whether facts fall under Section 328 (fraudulent preference: 6 months) or Section 329 (transfer not in good faith: 1 year) or Section 332 (floating charge: 12 months + solvency + cash + 5%); then state effect void/invalid/restoration.

Template 4 - Workmen and secured creditor priority

Quote Section 326 pari passu principle and formula. Compute workmen portion = security value x workmen dues / (workmen dues + secured creditor debt). Allocate balance to secured creditor and then discuss if anything remains.

Template 5 - Stay of proceedings

State Section 279: after winding-up order or provisional liquidator, suit/proceeding cannot commence/continue except with Tribunal leave; leave application disposed in 60 days; exception for appeals pending before Supreme Court/High Court.

Template 6 - CLDUA problem

State 6 months unpaid after declaration -> transfer within 14 days to CLDUA Account. Entitled person claims from RoC; RoC settle 60 days or report to RD. If unclaimed 15 years -> CG general revenue. Liquidator retaining amount -> 12% p.a. interest.

Chapter 8 - Miscellaneous Provisions

Comprehensive notes in Chapter 1 style + exact limits, thresholds, forms, penalties, case questions and revision charts

Source discipline: Prepared only from the uploaded material: ICAI Chapter 8 module, Case Scenario Booklet, SPOM Set A All Important Points PDF, and Hemant notes already provided. No online/external source has been used.

How to use these Chapter 8 notes

- Read the mega case study first. It connects registered valuers, strike-off/restoration, government company reports, Nidhi rules, fraud/no-specific-penalty and dormant company provisions in one story.
- Then memorise the exact threshold tables. Chapter 8 is very MCQ-heavy: 3 years, 5 years, 20 years, 180 days, 30 days, 60 days, 90 days, 120 days, 45 days, INR 10 lakh, INR 20 lakh, 1:20, 10%, 20%, 25%, and many Form numbers are testable.
- I have avoided vague wording like prescribed threshold wherever the uploaded material gives the exact limit, form, time period or amount.
- Use the penalties section for last-day revision. It separates penalties under registered valuer, Nidhi, fraud, no-specific-penalty and strike-off/restoration consequences.

Coverage promise for Chapter 8: Section 247 + Registered Valuers Rules; Sections 248-252; Sections 394-395; Section 406 + Nidhi Rules; Sections 447, 450 and 455 are all covered. Relevant Case Scenario Booklet items are integrated at the end.

A. Mega Integrated Case Study - One Story Covering the Full Chapter

Facts

Sampoorna Development and Mutual Benefit Group has multiple entities. Global Estate Capital Limited (GECL) has 21% Central Government holding, 23% Gujarat State Government holding and 10% holding by Navyug Engineering Limited, which is itself a Government company. Another group company, Prism Manufacturing Limited (PML), has not carried on business for two immediately preceding financial years. It has not applied for dormant status and also failed to file certain forms. A third entity, Janhit Savings Nidhi Limited, is incorporated as a Nidhi to cultivate thrift and savings among members. The group also has SleepMode Innovations Private Limited, formed to hold intellectual property for a future project with no significant accounting transaction.

The following events occur in the same exam-style story:

- GECL needs valuation of goodwill, assets, shares and net worth for a restructuring. The Board proposes Mr. Anant, who is a valuation expert but is not a person resident in India and is not registered as valuer in India.
- The Audit Committee of GECL exists, but the Board directly appoints another valuer without Audit Committee approval.
- The selected valuer had an indirect interest in an asset three years before appointment and again becomes interested two years after valuation.
- PML has not commenced business/operations properly and the Registrar wants to strike off its name. PML wants to argue that dissolution removes all liabilities.
- PML later wants restoration of name after RoC strike-off order. A creditor and a workman also consider restoration application.
- Janhit Savings Nidhi Limited has 175 members, paid-up equity share capital of INR 12 lakh, Net Owned Funds of INR 18 lakh, deposits of INR 4 crore, and unencumbered term deposits of only 8% of outstanding deposits.
- The Nidhi wants to issue preference shares, open current accounts for members, advertise publicly for deposits, pay brokerage for mobilising deposits, provide locker facilities generating 25% of gross income, and lend money to a non-member body corporate.
- Janhit wants to give one member a loan of INR 15 lakh when its deposits are INR 4 crore; it also wants to charge loan interest 10% above its highest deposit rate.
- A Nidhi director completes 10 consecutive years and wants immediate reappointment. The Nidhi auditor completes 5 consecutive years and wants immediate reappointment.
- SleepMode Innovations wants dormant company status. It has paid RoC fees, paid rent for office records, allotted shares to fulfil legal requirements and paid expenses required by law.
- SleepMode becomes dormant on 1 October 2020 but remains dormant for 5 consecutive years. It later wants active company status.
- A director of one entity knowingly conceals a material fact in a valuation report to gain undue advantage, raising the fraud provision.

Integrated legal analysis

Issue in story	Provision triggered / exact exam memory point
1. GECL as Government Company	Government company means a company in which not less than 51% of paid-up share capital is held by Central Government, State Government(s), partly by Central and partly by State Government(s), and includes a company which is a subsidiary of a Government company. GECL: 21% CG + 23% SG + 10% Government company = 54%, so it crosses 51% and is a Government company.
2. Annual report of Government company	Where Central Government is member, CG must prepare annual report within 3 months of AGM and lay it before both Houses of Parliament with audit report and CAG comments/supplement. Where State Government is also member, State Government also lays report before State Legislature.
3. Valuation assets covered	Registered valuer provisions apply to valuation of property, stocks, shares, debentures, securities, goodwill, any other assets, net worth, or liabilities under the Act/rules.
4. Who appoints valuer	Valuer is appointed by Audit Committee; if no Audit Committee, by Board of Directors. Therefore Board appointment without existing Audit Committee approval is wrong.
5. Resident requirement for valuer	An individual valuer must be a person resident in India. A foreign valuer merely registered abroad is not sufficient for registration as registered valuer under these rules.
6. Valuer interest cooling rule	Valuer must not undertake valuation of assets in which he has direct/indirect interest or becomes interested during 3 years prior to appointment or 3 years after valuation.
7. Valuer entity eligibility	For partnership entity/company: objects must be professional/financial services including valuation; not subsidiary/joint venture/associate of another company/body corporate; not in insolvency/bankrupt; all partners/directors satisfy key eligibility; 3 or all partners/directors, whichever lower, must be registered valuers; at least one partner/director registered for relevant asset class; member of only one RVO at a time.
8. Valuer registration timelines	Application fee: individual INR 5,000 in Form A; partnership/company INR 10,000 in Form B. Deficiency/additional document/appearance period: 21 days each. Registration certificate in Form C within 60 days of receipt of application excluding time taken for additional documents/clarification/appearance.

9. Strike-off by RoC	RoC can strike off if company fails to commence business within 1 year; not carrying on business/operation for 2 immediately preceding financial years and no dormant application; subscribers have not paid subscription and declaration not filed within 180 days of incorporation; company not carrying on business as found in physical verification under section 12(9).
10. Company voluntary strike-off	Company may apply after extinguishing all liabilities by special resolution OR consent of 75% members in terms of paid-up share capital. Section 8 companies cannot use this voluntary route. Special Act companies need regulatory body approval.
11. Section 249 restrictions	Company cannot apply under section 248 if within previous 3 months it changed name or shifted registered office from one State to another; disposed property/rights for value except for ordinary course; engaged in activity except necessary/expedient for application; made application to Tribunal for compromise/arrangement and matter not finally concluded; or is being wound up.
12. Effect of dissolution	On publication in Official Gazette, company stands dissolved and certificate of incorporation is deemed cancelled, except for realising amounts due and paying/discharging liabilities/obligations. Liability of directors/managers/officers/members continues as if company had not been dissolved.
13. Restoration appeal/application	Any person aggrieved by RoC order can appeal to Tribunal within 3 years from RoC order. Company/member/creditor/workman may apply before expiry of 20 years from publication of strike-off notice in Official Gazette. RoC may apply for restoration within 3 years if name struck off inadvertently/incorrectly/without sufficient cause. Copy of NCLT order must be filed with RoC within 30 days; RoC issues fresh certificate of incorporation.
14. Nidhi core identity	Nidhi means a company incorporated to cultivate thrift and saving among members, receive deposits from and lend to members only, for mutual benefit, and comply with Central Government rules. It must be a public company and use words Nidhi Limited.
15. Nidhi paid-up capital	Current minimum paid-up equity share capital: INR 10 lakh. Existing Nidhi as on 19 April 2022 had 18 months from commencement of Nidhi Amendment Rules, 2022 to comply.
16. Nidhi one-year requirements	Within 1 year from incorporation: not less than 200 members; Net Owned Funds of INR 10 lakh or more under Rule 5; unencumbered term deposits at least 10% of outstanding deposits; NOF:deposit ratio not more than 1:20. Current general NOF maintenance under Rule 9 is INR 20 lakh or higher amount specified by CG.
17. Nidhi restrictions breached by Janhit	No preference shares, debentures/debt instruments, current account with members, chit fund/hire purchase/leasing/insurance/acquisition of securities, securities of another company/control of another board, business other than borrowing/lending, deposits/lending to non-members/body corporates, partnership borrowing/lending, advertisement soliciting deposits, brokerage/incentive for deposits/funds/loans, or raising loans from banks/FIs/others for advancing loans to members.
18. Locker facility cap	Allowed only if Nidhi has adhered to rules and only to members; rental income must not exceed 20% of gross income at any point of time during a financial year. Janhit proposed 25%, hence not allowed.
19. Nidhi membership/share rules	Fully paid-up equity shares nominal value not less than INR 10. Each deposit holder: at least 10 equity shares or shares equivalent to INR 100. Savings account holder/recurring deposit account holder: at least 1 equity share of INR 10. Body corporate/trust cannot be member. Minor cannot be admitted as member, but deposits may be accepted in minor name through natural/legal guardian who is member.
20. Deposits and interest	Nidhi cannot accept deposits exceeding 20 times its NOF. Fixed deposits: minimum 6 months, maximum 60 months. Recurring deposits: minimum 12 months, maximum 60 months. Savings deposit balance qualifying for interest: maximum INR 1 lakh; interest not more than 2% above nationalised bank savings rate. Fixed/recurring deposit interest: not exceeding RBI-prescribed maximum for NBFC public deposits.
21. Loan limits based on deposits	Deposits < INR 2 crore: max loan INR 2 lakh. Deposits > INR 2 crore but < INR 20 crore: INR 7.5 lakh. Deposits > INR 20 crore but < INR 50 crore: INR 12 lakh. Deposits > INR 50 crore: INR 15 lakh. If Nidhi has not made profits continuously in preceding 3 FYs, fresh loans cannot exceed 50% of these maxima.
22. Loan securities and repayment periods	Loans only to members. Security: gold/silver/jewellery, repayment max 1 year; immovable property, individual loan max 50% of property value and repayment max 7 years; total loans against immovable property (excluding registered mortgage under section 69 TPA) not more than 50% of overall loan outstanding on approval date; fixed deposits/NSC/government securities/insurance policies with maturity not beyond loan period or 1 year whichever earlier.
23. Loan interest cap	Loan interest cannot exceed 7.5% above highest rate of interest offered on deposits by Nidhi and must be calculated on reducing balance method. Same rate must apply within same class of loans and be displayed at registered office and each branch.
24. Nidhi director/auditor tenure	Director must be member; holds office up to 10 consecutive years; eligible for reappointment only after 2 years of ceasing. Individual auditor: not more than 1 term of 5 consecutive years. Audit firm: not more than 2 terms of 5 consecutive years. Auditor cooling period: 2 years.
25. Nidhi returns and penalty	NDH-1: within 90 days from close of first FY (and second FY if applicable). NDH-2: within 30 days from close of first FY for extension if non-compliance with member count/ratio; RD to pass order within 30 days; extension up to 1 year from receipt. NDH-3: half-yearly return within 30 days from conclusion of each half-year, duly certified. Rule 24 penalty: fine up to INR 5,000 + continuing fine up to INR 500 per day.
26. Dormant company eligibility	Company formed for future project or to hold asset/IP and has no significant accounting transaction, or inactive company, can apply for dormant status. Inactive company = no business/operation or no significant accounting transaction during last 2 FYs, or no financial statements and annual returns during last 2 FYs.
27. Significant accounting transaction exclusions	Not significant: payment of RoC fees; payments to fulfil Act/other law; allotment of shares to fulfil Act; payments for maintenance of office and records.
28. Dormant process and forms	Application for dormant status: Form MSC-1 after special resolution or consent of at least 3/4th shareholders in value. RoC issues dormant certificate in Form MSC-2 and maintains register. Annual return of dormant company: Form MSC-3 within 30 days from end of financial year. Active status: Form MSC-4 with return in MSC-3; RoC issues MSC-5.
29. Dormant directors and strike-off	Minimum directors: public company 3, private company 2, OPC 1. Auditor rotation does not apply. If dormant for 5 consecutive years, RoC initiates strike-off. If dormant company does/omits act affecting status, directors file active status application within 7 days. If RoC finds functioning after enquiry, company is removed from dormant register and treated active.
30. Fraud provision	Fraud >= INR 10 lakh or 1% of turnover, whichever lower: imprisonment 6 months to 10 years + fine amount involved to 3 times amount. If public interest involved, imprisonment minimum 3 years. Fraud below INR 10 lakh or 1% turnover, whichever lower and no public interest: imprisonment up to 5 years or fine up to INR 50 lakh or both.
31. No-specific-penalty provision	Section 450 applies where no specific penalty/punishment is provided. Company/officer/defaulting person: penalty INR 10,000; continuing contravention: further penalty INR 1,000 per day after first; maximum INR 2 lakh for company and INR 50,000 for officer/defaulting person.

What-if scenarios from the mega case

If this happens...	Then remember...
If GECL had only 44% held by CG+SG and 10% by a private company	It would not be a Government company because the total Government/Government-company holding would not cross 51%.
If Audit Committee exists but Board appoints valuer directly	Appointment is defective; Audit Committee appoints valuer, Board only if no Audit Committee exists.
If valuer had interest 4 years before appointment but no interest during 3 years before/after	The specific 3-year prior/3-year after cooling rule is not breached on that fact alone.
If company has not carried on business for 2 immediately preceding FYs but applied for dormant status	RoC strike-off ground under section 248(1)(c) is not triggered because dormant application was made.
If company wants voluntary strike-off but liabilities remain	Not allowed; company must extinguish all liabilities first.
If company applies for strike-off after shifting registered office to another State 2 months ago	Prohibited by section 249 because change within previous 3 months.
If a workman applies for restoration 15 years after Official Gazette strike-off notice	Allowed if before expiry of 20 years from publication and Tribunal is satisfied.
If a Nidhi has 199 members after 1 year	Breach of 200-member requirement; extension route through RD Form NDH-2 may be needed within 30 days from close of first FY for specified non-compliances.
If Nidhi has NOF INR 20 lakh, maximum deposits?	20 times NOF = INR 4 crore maximum deposits.
If Nidhi has deposits INR 4 crore and made profits for preceding 3 FYs, max loan to one member?	Deposits > INR 2 crore but < INR 20 crore: INR 7.5 lakh.
If same Nidhi has not made profits continuously in preceding 3 FYs	Fresh loan max becomes 50% of INR 7.5 lakh = INR 3.75 lakh.
If Nidhi gives gold loan	Repayment period cannot exceed 1 year.
If Nidhi gives immovable property loan	Individual loan not more than 50% of value of property; repayment max 7 years; total specified loans against immovable property not more than 50% of overall loan outstanding.
If dormant company pays rent for record office	It remains eligible; payment for maintenance of office and records is not significant accounting transaction.
If dormant company starts functioning without applying active status	RoC may enquire under section 206 and, after hearing, remove it from dormant register and treat it active.
If fraud amount is INR 8 lakh and does not involve public interest	Lower fraud punishment: imprisonment up to 5 years or fine up to INR 50 lakh or both.

B. Exact Limits, Thresholds, Forms and Time Periods - Master Table

Provision / concept	Exact limit / threshold / form / time period
Registered valuer interest cooling	No direct/indirect interest in asset for 3 years before appointment and 3 years after valuation
Valuation exam validity	Passed within 3 years preceding application for registration
Valuer qualification route 1	Postgraduate degree/diploma + at least 3 years experience
Valuer qualification route 2	Bachelor degree/equivalent + at least 5 years experience
Valuer qualification route 3	Professional institute membership + at least 3 years experience after membership
Valuer conviction disqualification	Offence with imprisonment > 6 months or moral turpitude: 5 years from sentence expiry; offence sentence 7 years or more: not eligible
Income-tax penalty disqualification	Penalty under section 271J confirmed/time for appeal expired and 5 years have not elapsed after levy
Valuer entity registered valuers	3 or all partners/directors, whichever is lower, must be registered valuers
Valuer individual fee	Form A + INR 5,000 non-refundable application fee
Valuer partnership/company fee	Form B + INR 10,000 non-refundable application fee
Remove deficiencies / additional documents / appearance	21 days each, wherever required by authority
Grant registration certificate	Form C within 60 days of receipt of application, excluding time for additional documents/information/clarification/appearance
Denial prima facie communication	Within 45 days of receipt of application excluding deficiency/additional document/appearance time
Applicant explanation on denial	Within 15 days of receipt of communication
Authority final decision after explanation	Within 30 days of receipt of explanation
Valuer records	Maintain each assignment record for at least 3 years from completion
Temporary surrender intimation by RVO	Not later than 7 days from approval of temporary surrender or revival
RVO society/trust conversion	Convert/register as Section 8 company within 1 year from commencement of rules
Complaint against valuer/RVO	Non-refundable fee INR 1,000
Valuation Standards Committee tenure	Chairperson and members: 3 years; maximum 2 tenures
Strike-off: non-commencement	Failed to commence business within 1 year of incorporation
Strike-off: non-operation	No business/operation for 2 immediately preceding FYs and no dormant application
Strike-off: subscribers not paid	Subscription not paid and declaration not filed within 180 days of incorporation
RoC strike-off notice representation	Company/directors get 30 days from notice to send representation
Company voluntary strike-off approval	Special resolution OR consent of 75% members in terms of paid-up share capital, after extinguishing all liabilities
Section 249 look-back restrictions	No company application if ABCDE-type acts happened in previous 3 months
Appeal by person aggrieved against RoC strike-off	Within 3 years from RoC order
Application by company/member/creditor/workman for restoration	Before expiry of 20 years from publication of strike-off notice in Official Gazette
RoC restoration application	Within 3 years if name struck off inadvertently/incorrectly/without sufficient cause
File NCLT restoration order with RoC	Within 30 days from date of order
Government company threshold	Not less than 51% paid-up share capital held by CG/SG(s)/partly CG partly SG(s), including subsidiary of Government company
Government company annual report	Within 3 months of AGM; laid before Parliament/State Legislature as applicable
Section 406 draft notification	Laid before each House for total 30 days; exclude period of prorogation/adjournment > 4 consecutive days
Nidhi minimum paid-up equity share capital	INR 10 lakh; existing Nidhis as on 19 April 2022 had 18 months to comply
Nidhi one-year members	At least 200 members within 1 year of incorporation
Nidhi Rule 5 NOF	INR 10 lakh or more within 1 year
Nidhi Rule 9 NOF maintenance	Not less than INR 20 lakh or higher amount specified by CG
Nidhi unencumbered term deposits	At least 10% of outstanding deposits
Nidhi NOF to deposits ratio	Not more than 1:20; deposits not exceeding 20 times NOF
NDH-1 statutory compliance return	Within 90 days from close of first FY and where applicable second FY, duly certified
NDH-2 extension application	Within 30 days from close of first FY for non-compliance with 200 members or 1:20 ratio; RD order within 30 days; extension up to 1 year from receipt
Nidhi locker rental income	Not exceeding 20% of gross income at any point during financial year
Nidhi share nominal value	Fully paid equity shares of nominal value not less than INR 10 each
Deposit holder shares	At least 10 equity shares or shares equivalent to INR 100
Savings/recurring account holder shares	At least 1 equity share of INR 10
Nidhi membership floor	Not reduced below 200 members except as permitted
Member share transfer restriction	Cannot transfer more than 50% of shareholding during subsistence of loan/deposit and must retain minimum shares
Fixed deposits tenure	Minimum 6 months; maximum 60 months
Recurring deposits tenure	Minimum 12 months; maximum 60 months
Savings deposit balance qualifying for interest	Maximum INR 1 lakh at any point of time
Savings deposit interest cap	Not more than 2% above nationalised bank savings account interest rate
FD/RD interest cap	Not exceeding RBI-prescribed maximum rate for NBFC public deposits
No repayment of deposits	No deposit repayment within 3 months from acceptance
Premature repayment after 3 months	No interest up to 6 months from date of deposit
Premature rate reduction	Interest reduced by 2% from ordinary rate for actual run period
Nidhi loan limit deposits < INR 2 crore	INR 2 lakh
Nidhi loan limit deposits > INR 2 crore but < INR 20 crore	INR 7.5 lakh
Nidhi loan limit deposits > INR 20 crore but < INR 50 crore	INR 12 lakh
Nidhi loan limit deposits > INR 50 crore	INR 15 lakh
No continuous profit for 3 preceding FYs	Fresh loans cannot exceed 50% of normal maximum loan limit
Gold/silver/jewellery loan repayment	Not exceeding 1 year
Immovable property loan	Individual loan max 50% of property value; repayment max 7 years
Total specified loans against immovable property	Not more than 50% of overall loan outstanding on Board approval date
Loan against fixed deposits	Loan period cannot exceed unexpired period of fixed deposits
Nidhi loan interest	Not exceeding 7.5% above highest deposit rate; reducing balance method
Nidhi director tenure	Up to 10 consecutive years; reappointment only after 2-year cooling period
Nidhi individual auditor tenure	Not more than one term of 5 consecutive years; cooling 2 years
Nidhi audit firm tenure	Not more than two terms of 5 consecutive years; cooling 2 years
NDH-3 half-yearly return	Within 30 days from conclusion of each half-year, duly certified
Dormant application approval	MSC-1 application; RoC certificate in MSC-2
Dormant annual return	MSC-3 within 30 days from end of financial year
Active company status	MSC-4 application with MSC-3; RoC issues MSC-5
Dormant minimum directors	Public company 3; private company 2; OPC 1
Dormant company remaining dormant	If dormant for 5 consecutive years, RoC initiates strike-off
Dormant status-affecting event	Directors file active status application within 7 days from event
Fraud main threshold	At least INR 10 lakh or 1% of turnover, whichever lower
Fraud public interest	Minimum imprisonment 3 years
No-specific-penalty continuing maximums	Company max INR 2 lakh; officer/defaulting person max INR 50,000

C. Registered Valuer - Section 247 and Valuation Rules

1. Assets/liabilities for which valuation may be required

- Property
- Stocks
- Shares
- Debentures
- Securities
- Goodwill
- Any other assets
- Net worth of a company
- Liabilities under the Act/rules

2. Appointment, role and independence

Point	Rule
Appointing authority	Audit Committee; if there is no Audit Committee, Board of Directors.
Who can be appointed	A person with prescribed qualifications and experience, registered as valuer and member of recognised organisation.
Valuation standard of conduct	Impartial, true and fair valuation; due diligence; valuation as per rules/standards.
Conflict restriction	No valuation of asset in which valuer has direct/indirect interest or becomes interested in 3 years before appointment or 3 years after valuation.
Contravention without fraud	Penalty INR 50,000.
Contravention with intent to defraud	Imprisonment up to 1 year and fine INR 1 lakh to INR 5 lakh; refund remuneration and pay damages for loss due to incorrect/misleading statement.

3. Eligibility of an individual registered valuer

Eligibility component	Exact rule
Valuer member of RVO	Must be valuer member of registered valuers organisation.
Recommendation	Must be recommended by RVO for registration.
Examination	Passed valuation examination within 3 years before application.
Qualifications/experience	PG degree/diploma + 3 years OR Bachelor degree + 5 years OR professional institute membership + 3 years after membership.
Personal capacity	Not minor; not of unsound mind; not undischarged bankrupt; not applied to be adjudicated bankrupt; person resident in India.
Criminal record	No conviction with imprisonment > 6 months or moral turpitude unless 5 years from sentence expiry; conviction with sentence 7 years or more = not eligible.
Tax penalty	No penalty under section 271J where appeal time expired/confirmed and 5 years not elapsed.
Fit and proper	Integrity, reputation, character, absence of convictions/restraint orders, competence and financial solvency.

4. Eligibility of partnership entity/company as registered valuer

- Objects must be professional/financial services including valuation services; in case of company, it must not be subsidiary, joint venture or associate of another company/body corporate.
- It must not be undergoing insolvency resolution and must not be an undischarged bankrupt.
- All partners/directors must satisfy examination, qualification, age, soundness of mind, bankruptcy, residency, conviction, tax penalty and fit/proper requirements.
- 3 or all partners/directors, whichever is lower, must be registered valuers.
- At least one partner/director must be registered valuer for the asset class for which registration is sought.
- It must be member of registered valuers organisation and cannot be member of more than one RVO at a given point of time.

5. Registration process and deadlines

Stage	Exact detail
Application by individual	Form A of Annexure-II + non-refundable fee INR 5,000.
Application by partnership/company	Form B of Annexure-II + non-refundable fee INR 10,000.
Deficiency removal	Authority may grant 21 days.
Additional documents/clarification	Authority may require within 21 days.
Appearance for explanation/clarification	Authority may require appearance within 21 days.
Grant of certificate	Form C within 60 days of receipt of application, excluding time allowed for documents/information/clarification/appearance.
Denial prima facie opinion	Reasons communicated within 45 days of receipt of application, excluding time allowed for deficiencies/documents/clarification/appearance.
Applicant explanation	Within 15 days of receipt of denial communication.
Authority final decision	Within 30 days of receipt of explanation.

6. Conditions of registration and conduct of valuation

- Maintain eligibility and qualification at all times.
- Comply with Act, rules, bye-laws/internal regulations of RVO.
- Do not conduct valuation of asset class other than registered asset class.
- Take prior permission of authority to shift RVO membership.
- Take adequate steps for grievance redressal.
- Maintain records of each assignment for at least 3 years from completion.
- If partnership/company is valuer, only partner/director registered for relevant asset class signs and acts on behalf of entity.
- Partnership entity is jointly and severally liable with signing partner; company is liable along with signing director.
- Immediately inform authority on removal of registered valuer partner/director with detailed reasons.
- Intimate changes in personal details/composition/partnership agreement/MOA affecting registration after paying fee as per Annexure V.

7. Valuation report - contents to remember

- Background information of asset
- Purpose of valuation and appointing authority
- Identity of valuer and experts
- Disclosure of valuer interest/conflict
- Date of appointment, valuation date and report date
- Inspections/investigations undertaken
- Nature and sources of information used
- Procedures and valuation standards followed
- Restrictions on use
- Major factors considered
- Conclusion
- Caveats/limitations/disclaimers not limiting valuer responsibility

8. Registered Valuers Organisation and Valuation Standards Committee

Topic	Exact rule
RVO eligibility	Section 8 company with sole object of regulating valuers of asset class, or professional institute established by Act of Parliament; certain society/trust may be recognised subject to conversion.
Society/trust conversion	Convert/register as Section 8 company within 1 year from commencement of rules.
RVO functions	Educational courses; membership/certificate of practice; training; code of conduct; continuing education; monitoring/review; grievance and disciplinary mechanism.
Complaint	Complaint against registered valuer/RVO before authority with non-refundable fee INR 1,000.
Valuation Standards Committee	1 Chairperson; MCA nominee; IBBI nominee; legislative department nominee; up to 4 authority representatives; up to 4 RVO representatives; up to 2 industry/stakeholder representatives; ICAI/ICSI/ICMAI Presidents as ex-officio members.
Tenure	Chairperson and members: 3 years; maximum 2 tenures.
False statement	False material particulars or material omission attracts section 448.

D. Removal of Name from Register - Sections 248 to 252

1. Section 248 - RoC strike-off and company application

Ground / route	Exact provision
RoC ground 1	Company failed to commence business within 1 year of incorporation.
RoC ground 2	Company not carrying on business or operation for 2 immediately preceding financial years and has not applied for dormant status under section 455.
RoC ground 3	Subscribers to memorandum have not paid subscription and declaration not filed within 180 days of incorporation under section 10A(1).
RoC ground 4	Company not carrying on business or operations as revealed after physical verification under section 12(9).
Notice	RoC sends notice to company and all directors, requesting representations with documents within 30 days from notice.
Public notice	Notice under section 248(1) or 248(2) is published in prescribed manner and Official Gazette.
Company application	After extinguishing all liabilities, company may apply by special resolution OR consent of 75% members in terms of paid-up share capital.
Special Act company	Approval of regulatory body under special Act must be obtained and enclosed.
Section 8 company	Voluntary application route under section 248(2) does not apply.
Dissolution	On publication in Official Gazette, company stands dissolved.
Liability continues	Liability of every director, manager, officer exercising management power and every member continues and may be enforced as if company had not been dissolved.
Tribunal winding-up power preserved	Strike-off does not affect Tribunal power to wind up company whose name is struck off.

2. Section 249 - restrictions on company application

Memory word: ABCDE - the company cannot apply for voluntary strike-off if these happened in the previous 3 months.

Letter	Restricted activity within previous 3 months
A	Altered / changed name.
B	Business/registered office shifted from one State to another.
C	Carried on activity except activity necessary/expedient for making strike-off application, deciding whether to apply, concluding company affairs, or complying with statutory requirement.
D	Disposed for value of property or rights held immediately before cessation of trade/business, except disposal in normal course of trading/business.
E	Entered application to Tribunal for sanctioning compromise/arrangement and matter not finally concluded, or company is being wound up.

If company files application in violation of section 249, it is punishable with fine which may extend to INR 1 lakh. The application filed under section 248(2) shall be withdrawn by the company or rejected by RoC as soon as the restricted conditions are brought to notice.

3. Section 250 - effect of company notified as dissolved

- Company ceases to operate as company from date mentioned in section 248(5) notice.
- Certificate of incorporation is deemed cancelled from such date.
- Exception: company can still be treated as existing for realising amounts due and paying/discharging liabilities or obligations.
- Dissolution does not erase liabilities. This is a common MCQ trap.

4. Section 251 - fraudulent application for removal

- If application under section 248(2) is made with object to evade liabilities or with intention to deceive creditors or defraud any other person, persons in charge of management are jointly and severally liable to any person who incurred loss/damage as a result.
- Such persons are punishable for fraud in manner provided under section 447.
- RoC may recommend prosecution of persons responsible for fraudulent application.

5. Section 252 - restoration of name

Applicant	Time limit	When / effect
Any person aggrieved by RoC order under section 248	Within 3 years from date of RoC order	Appeal to Tribunal. If Tribunal finds removal not justified due to absence of grounds, it may order restoration.
Registrar	Within 3 years from passing of order dissolving company	If satisfied name was struck off inadvertently, on incorrect information or without sufficient cause, RoC may apply to Tribunal.
Company / member / creditor / workman	Before expiry of 20 years from publication of notice in Official Gazette	If company was carrying on business/in operation or otherwise just, Tribunal may order restoration.
Filing of Tribunal order	Within 30 days from date of order	Company files copy with RoC; RoC causes company name to be restored and issues fresh certificate of incorporation.

E. Government Companies - Sections 394 and 395

1. Government company definition

Government company means any company in which not less than 51% of the paid-up share capital is held by the Central Government, or by any State Government(s), or partly by Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such Government company.

2. Annual reports on Government companies - Section 394

Situation	Exact rule
Where Central Government is member	Central Government must cause annual report on working and affairs of Government company to be prepared within 3 months of AGM and, as soon as may be after preparation, laid before both Houses of Parliament with audit report and CAG comments/supplement.
Where State Government is also member	State Government must also cause annual report to be laid before House(s) of State Legislature with audit report and comments/supplement.
Government company in liquidation	Sections 394 and 395 apply so far as may be to Government company in liquidation.

3. Annual reports where one or more State Governments are members - Section 395

Where Central Government is not a member of the Government company, every State Government which is member must cause the annual report to be prepared within the time specified in section 394(1) and, as soon as may be after preparation, laid before the House or both Houses of State Legislature with audit report and comments/supplement.

F. Nidhis - Section 406 and Nidhi Rules, 2014

1. Section 406 - power to modify Act in application to Nidhis

- Nidhi or Mutual Benefit Society means a company which Central Government may by notification in Official Gazette declare to be a Nidhi or Mutual Benefit Society.
- Central Government may by notification direct that provisions of the Act shall not apply or shall apply with exceptions, modifications and adaptations to any Nidhi/Mutual Benefit Society.
- Every proposed notification must be laid in draft before each House of Parliament while in session for total 30 days.
- Do not count any period during which the House is prorogued or adjourned for more than 4 consecutive days.
- Every issued notification must also be laid before each House as soon as may be after issue.

2. Nidhi Rules application and definitions

Topic	Exact point
Rules apply to	Companies declared Nidhi/Mutual Benefit Society under old section 620A; companies functioning like Nidhi/MBS but not yet notified; companies incorporated as Nidhi under section 406; companies declared Nidhi/MBS under section 406.
Branch	Place other than registered office of Nidhi.
Doubtful asset	Borrowal account NPA for more than 2 years but less than 3 years.
Loss asset	Borrowal account NPA for more than 3 years, or Board expects shortfall because documents may become invalid in legal process or other reason.
NPA	Interest income or instalment of loan towards principal remains unrealised for 12 months.
Sub-standard asset	Borrowal account which is NPA; rescheduling/renegotiation/rephasement does not change classification unless satisfactory performance for at least 12 months thereafter.
Standard asset	No default in principal/interest and no perceived repayment problem or more than normal risk.
NOF formula	Paid-up equity share capital + free reserves - accumulated losses - intangible assets as per last audited balance sheet. Preference share proceeds excluded.

3. Incorporation and one-year requirements

Requirement	Exact rule
Company type	Nidhi must be a public company.
Paid-up equity capital	Minimum INR 10 lakh.
Existing Nidhi compliance	Existing Nidhi as on 19 April 2022: comply with INR 10 lakh requirement within 18 months from commencement.
Preference shares	No issue after commencement of Act; old preference shares to be redeemed as per terms of issue.
Main object	Cultivate thrift and savings among members; receive deposits from and lend to members only for mutual benefit. Locker exception: permitted subject to 20% gross income cap.
Name	Last words must be Nidhi Limited; company cannot use Nidhi Limited unless declared as such under section 406(1).
Members within 1 year	At least 200 members.
NOF within 1 year under Rule 5	INR 10 lakh or more.
Unencumbered term deposits	At least 10% of outstanding deposits.
NOF to deposits ratio	Not more than 1:20.
NDH-1	Within 90 days from close of first FY and, where applicable, second FY, duly certified by PCS/PCA/PCMA.
NDH-2 for extension	If non-compliance with member count or NOF-deposit ratio, apply within 30 days from close of first FY; RD may pass order within 30 days and extend up to 1 year from receipt.
Non-compliance beyond second FY	Nidhi shall not accept further deposits from commencement of second FY till compliance and declaration under section 406; also liable to penal consequences.
Rule 9 NOF maintenance	Maintain NOF excluding preference proceeds of not less than INR 20 lakh or higher amount specified by CG.

4. General restrictions/prohibitions - Rule 6

- No chit fund, hire purchase finance, leasing finance, insurance, or acquisition of securities issued by any body corporate.
- No preference shares, debentures or other debt instruments by any name/form.
- No current account with members.
- No acquisition/purchase of securities of any other company, control over Board composition of another company, or arrangement for change of management.
- No business other than borrowing/lending in its own name, except compliant locker facilities to members with rental income not exceeding 20% of gross income.
- No accepting deposits from or lending to persons other than members.
- No pledging assets lodged by members as security.
- No deposits from or lending money to body corporate.
- No partnership arrangement in borrowing/lending activities.
- No advertisement for soliciting deposit. Private circulation of fixed deposit scheme to members marked for private circulation to members only is not advertisement.
- No brokerage or incentive for mobilising deposits, deployment of funds or granting loans.
- No loans from banks, financial institutions or any other source for advancing loans to members.

5. Share capital, membership, deposits and loans

Area	Exact rule
Share issue	Fully paid equity shares nominal value not less than INR 10 each.
Deposit holder	At least 10 equity shares or shares equivalent to INR 100.
Savings/RD holder	At least 1 equity share of INR 10.
Members not allowed	Body corporate or trust cannot be member; minor cannot be admitted as member.
Minor deposits	Allowed in name of minor if made by natural/legal guardian who is member.
Membership floor	Must not reduce below 200 members except as otherwise permitted.
Share transfer restriction	Member cannot transfer more than 50% of shareholding during subsistence of loan/deposit and must retain minimum required shares.
Deposit cap	Deposits not exceeding 20 times NOF as per last audited financial statements.
FD period	6 to 60 months.

RD period	12 to 60 months. For mortgage loans, max RD period corresponds to loan repayment period.
Savings balance for interest	Max INR 1 lakh at any point; savings interest max 2% above nationalised bank savings rate.
FD/RD interest cap	Max rate prescribed by RBI for NBFC public deposits.
Unencumbered term deposits	At least 10% of outstanding deposits at close of business on last working day of second preceding month, in scheduled commercial bank (not co-operative/RRB) or post office deposits.
Temporary withdrawal	Prior approval of RD through Form NDH-2 for unforeseen commitments to repay depositors; RD specifies conditions/time to restore 10% limit.

Deposit base / fact	Loan limit consequence
Deposits from members less than INR 2 crore	Maximum loan to a member: INR 2 lakh
Deposits more than INR 2 crore but less than INR 20 crore	Maximum loan: INR 7.5 lakh
Deposits more than INR 20 crore but less than INR 50 crore	Maximum loan: INR 12 lakh
Deposits more than INR 50 crore	Maximum loan: INR 15 lakh
No continuous profits during preceding 3 FYs	Fresh loans cannot exceed 50% of the applicable maximum above
Defaulted earlier loan	Member not eligible for further loan

6. Loan securities and rate of interest

Security / rate	Exact limit
Gold, silver, jewellery	Repayment period not exceeding 1 year.
Immovable property	Individual loan not exceeding 50% of property value offered as security; repayment period not exceeding 7 years.
Total specified loans against immovable property	Excluding registered mortgage loans under section 69 of Transfer of Property Act, total must not exceed 50% of overall loan outstanding on Board approval date.
FD receipts, NSC, Government securities, insurance policies	Securities must be duly discharged and pledged; maturity date not beyond loan period or 1 year, whichever earlier.
Loan against fixed deposits	Loan period cannot exceed unexpired period of fixed deposit.
Loan interest rate	Cannot exceed 7.5% above highest deposit rate offered by Nidhi; calculated on reducing balance method.
Same class of loans	Same rate of interest for same class; rates displayed at registered office and each branch.

7. Directors, dividend, auditors, returns and Nidhi penalty

Topic	Exact rule
Director membership	Director must be a member of Nidhi.
Director tenure	Up to 10 consecutive years on Board.
Director reappointment	Only after 2 years from ceasing to be director.
Director eligibility	Must comply with section 152(4) and not be disqualified under section 164.
Dividend	Not exceeding 25% in a financial year.
Individual auditor	Not more than one term of 5 consecutive years.
Audit firm	Not more than 2 terms of 5 consecutive years.
Auditor cooling period	Eligible after expiration of 2 years from completion of term.
NDH-3	Half-yearly return within 30 days from conclusion of each half-year, certified by PCS/PCA/PCMA.
Auditor certificate	Every year, auditor certifies compliance with Nidhi Rules; if non-compliance, specifically states rules not complied with.
Penalty Rule 24	Company and every defaulting officer: fine up to INR 5,000; continuing contravention: further fine up to INR 500 per day after first.

G. Miscellaneous Penalty Provisions - Sections 447 and 450

1. Section 447 - punishment for fraud

Fraud category	Punishment
Fraud involving amount of at least INR 10 lakh or 1% of turnover of company, whichever is lower	Imprisonment minimum 6 months, maximum 10 years; fine minimum amount involved in fraud, maximum 3 times amount involved.
Fraud involving public interest	Imprisonment minimum 3 years.
Fraud involving amount less than INR 10 lakh or 1% of turnover, whichever lower, and no public interest	Imprisonment up to 5 years OR fine up to INR 50 lakh OR both.
Meaning of fraud	Any act, omission, concealment of fact or abuse of position committed with intent to deceive, gain undue advantage, or injure interests of company/shareholders/creditors/other person, whether or not wrongful gain/loss exists.
Wrongful gain	Gain by unlawful means of property to which person gaining is not legally entitled.
Wrongful loss	Loss by unlawful means of property to which person losing is legally entitled.

2. Section 450 - punishment where no specific penalty is provided

Person	Penalty
Company and every officer in default / other person contravening provisions where no specific penalty is provided	Penalty INR 10,000.
Continuing contravention	Further penalty INR 1,000 for each day after first during which contravention continues.
Maximum for company	INR 2 lakh.
Maximum for officer in default / other person	INR 50,000.

H. Dormant Company - Section 455

1. Eligibility and meaning

Concept	Exact meaning
Dormant candidate 1	Company formed and registered for future project or to hold asset/intellectual property and has no significant accounting transaction.
Dormant candidate 2	Inactive company.
Inactive company	Company which has not been carrying on business/operation, or has not made significant accounting transaction during last 2 financial years, or has not filed financial statements and annual returns during last 2 financial years.
Not significant accounting transaction 1	Payment of fees by company to Registrar.
Not significant accounting transaction 2	Payments made to fulfil requirements of Companies Act or any other law.
Not significant accounting transaction 3	Allotment of shares to fulfil requirements of Companies Act.
Not significant accounting transaction 4	Payments for maintenance of office and records.

2. Dormant process, forms and consequences

Step / issue	Exact rule
Application for dormant status	Form MSC-1 after special resolution in general meeting OR after notice to all shareholders and consent of at least 3/4th shareholders in value.
RoC certificate	Registrar issues certificate in Form MSC-2 and maintains register of dormant companies.
Company not filed FS/AR for 2 consecutive FYs	Registrar issues notice and enters name in dormant company register.
Minimum directors	Public company 3; private company 2; OPC 1.
Auditor rotation	Not applicable to dormant companies.
Annual return for dormant company	Form MSC-3 within 30 days from end of financial year.
Application to become active	Form MSC-4 with fees and accompanied by Form MSC-3 for FY in which active status application is filed.
RoC active certificate	Form MSC-5.
Dormant for 5 consecutive years	Registrar initiates process of striking off name.
Event affecting dormant status	Directors file active status application within 7 days from event.
RoC believes dormant company is functioning	RoC may initiate enquiry under section 206; after reasonable opportunity, if actually functioning, remove name from dormant register and treat as active company.
Non-compliance with section 455 requirements	RoC shall strike off name from register of dormant companies.

I. Dedicated Penalties, Consequences and Red Flags Section

Default / trigger	Exact penalty / consequence
Registered valuer - contravention without fraud	Penalty INR 50,000.
Registered valuer - intent to defraud	Imprisonment up to 1 year and fine INR 1 lakh to INR 5 lakh; refund remuneration; pay damages for loss caused by incorrect/misleading report.
False statement in valuation report	Liability under section 448.
Strike-off application in violation of section 249	Fine up to INR 1 lakh; application to be withdrawn/rejected.
Fraudulent application for removal of name	Persons in charge of management jointly and severally liable for loss/damage; punishable for fraud under section 447.
Nidhi Rules contravention	Company and every defaulting officer: fine up to INR 5,000; continuing fine up to INR 500 per day after first.
Nidhi non-compliance beyond second FY with member/ratio requirements	Cannot accept further deposits from commencement of second FY till compliance and section 406 declaration; also penal consequences.
Fraud under section 447 main category	Imprisonment 6 months to 10 years + fine from amount involved to 3 times amount involved.
Fraud involving public interest	Minimum imprisonment 3 years.
Fraud below threshold and no public interest	Imprisonment up to 5 years OR fine up to INR 50 lakh OR both.
No specific penalty under section 450	Penalty INR 10,000 + INR 1,000/day continuing; max company INR 2 lakh; max officer/other person INR 50,000.
Dormant company remaining dormant 5 consecutive years	RoC initiates strike-off.

J. Chapter 8 Case Scenario Booklet Integration

1. Case Scenario 42 - Government company, valuer and strike-off/restoration

Question theme	Answer with reason
Q1. CG 21% + SG 23% + Government company 10% = 54%. Is GECL a Government company?	Yes. Option (c). Government company threshold is not less than 51%; Government company holding is counted. 54% > 51%.
Q2. Mr. Anant is preferred for valuation assignment but is not resident in India. Can he act as registered valuer?	No. Option (a). Registered valuer must be a person resident in India under Rule 3.
Q3. PML aggrieved by RoC order dated 30-10-2021 wants appeal to NCLT. Time limit?	Within 3 years from date of RoC order under section 252(1).
Q4. PML contends dissolution means no recovery/payment obligations. Valid?	Invalid. Section 250 preserves existence for realising amounts due and payment/discharge of liabilities/obligations.
Q5. PML voluntarily wants removal of name. What approval?	After extinguishing all liabilities, special resolution OR consent of 75% members in terms of paid-up share capital; special Act regulatory approval if applicable.

2. Case Scenario 52 - Shri Murugan Wealth Nidhi Limited

Issue	Answer
Minimum paid-up capital when incorporated on 20 Aug 2015	At that time minimum was INR 5 lakh, so paid-up INR 95 lakh meant excess INR 90 lakh. Current threshold from 19 April 2022 is INR 10 lakh; existing Nidhis had 18 months to comply.
Maximum dividend on INR 10 share	25% of paid-up value = INR 2.50 per share.
Locker rental income cap	Not exceeding 20% of gross income at any point during FY.
Transfer to general reserve when dividend declared after amendment	No amount required merely under current Rule 18; prior to 19 April 2022 there was equal transfer requirement.

3. Case Scenario 55 - Vinayak Strotram Nidhi Limited

Question theme	Answer
Minimum shares for savings account holder	At least 1 equity share of INR 10.
Director reappointment after 10 consecutive years	Eligible only after 2 years of ceasing to be director.
FD/RD interest rate cap	Not exceeding RBI-prescribed maximum rate for NBFC public deposits.
Opening up to 3 branches within district	Allowed only if net profits after tax continuously during preceding 3 FYs; earliest after 3 years from incorporation in scenario.
More than 3 branches in district or branch outside district	Prior permission of Regional Director in Form NDH-2; intimation to RoC within 30 days of opening every branch.

4. Dormant company case scenario / case booklet integration

Question theme	Answer
Company with no significant accounting transactions for last 2 FYs	Inactive company eligible for dormant status.
Which transactions are ignored?	RoC fees, legal compliance payments, allotment of shares for Act compliance, and office/record maintenance payments.
Form for active company status	MSC-4 with MSC-3 return.
Dormant public company minimum directors	3 directors.
Dormant from 1 Oct 2020, strike-off trigger after 5 years	After 30 Sept 2025.
Appeal to NCLAT from NCLT order	Within 45 days from receipt of Tribunal order, as Chapter 9 provision appears in case booklet mixed scenario.

5. ICAI Test Your Knowledge - Chapter 8 MCQ digest

MCQ	Correct answer / reason
1. Nidhi wants to issue preference shares.	Cannot issue preference shares. Nidhi Rules prohibit preference shares after commencement.
2. Who may apply for restoration and time?	Any person aggrieved by RoC order: within 3 years from RoC order. Company/member/creditor/workman: within 20 years from Official Gazette publication.
3. Time for authority to grant registered valuer certificate.	Within 60 days of application receipt, excluding time for additional documents/information/clarification/appearance.
4. Workman applies after 15 years from strike-off publication.	Valid if before expiry of 20 years from Official Gazette publication.
5. Nidhi wants to acquire another company securities/control management.	Not permitted. Nidhi cannot acquire/purchase securities of another company or control another Board or enter arrangement for management change.

K. Examiner Traps and Last-Day Revision

1. Most common traps

Trap	Correct clarity
Government company threshold	Not 50%, not 55%; exact threshold is not less than 51% paid-up share capital. Subsidiary of Government company also included.
Strike-off vs liability	Dissolution does not wipe liabilities. Company deemed exists for realisation/payment and liabilities continue.
Company strike-off vs RoC strike-off	Company application requires extinguished liabilities + special resolution or 75% consent. RoC strike-off has specific grounds and notice.
3 years vs 20 years restoration	Aggrieved person appeal: 3 years from RoC order. Company/member/creditor/workman: 20 years from Official Gazette publication. RoC own application: 3 years.
Registered valuer	Board appoints only if no Audit Committee. Resident in India is mandatory. Valuer interest cooling is 3 years before and 3 years after.
Nidhi capital	Current minimum paid-up equity share capital is INR 10 lakh, not INR 5 lakh. Historical case scenario may use old INR 5 lakh depending on date.
Nidhi NOF	Rule 5 one-year NOF INR 10 lakh, but Rule 9 maintenance NOF is INR 20 lakh. Keep both separately.
Nidhi deposit ratio	Deposits cannot exceed 20 times NOF; NOF:deposits not more than 1:20.
Nidhi locker income	20% of gross income at any point during FY; 25% is wrong.
Nidhi dividend	Maximum 25% in a FY.
Dormant company significant transactions	RoC fees, legal compliance payments, share allotment for compliance, office/records maintenance are not significant accounting transactions.
Fraud threshold	Main fraud threshold is INR 10 lakh or 1% of turnover, whichever lower; public interest increases minimum imprisonment to 3 years.

2. One-page memory chart

Section / Rule	Topic	Memory line
247	Registered valuer	Audit Committee appointment; 3-year interest cooling; INR 50,000 penalty; fraud intent = jail up to 1 year + INR 1-5 lakh fine.
248	Strike-off	RoC grounds: 1 year non-commencement, 2 FY non-operation/no dormant, 180 days subscription declaration, physical verification.
249	No application situations	No company application if name/state/property/activity/compromise/winding-up restrictions in previous 3 months.
250	Effect of dissolution	Ceases to operate; COI cancelled; exception for realisation/payment of liabilities.
251	Fraudulent strike-off application	Fraud under section 447 + joint/several liability.
252	Restoration	3 years aggrieved/RoC; 20 years company/member/creditor/workman; file order with RoC in 30 days.
394-395	Government company reports	51% threshold; annual report within 3 months of AGM; Parliament/State Legislature.
406	Nidhi	CG declaration/modification; draft notification 30 sitting/session days excluding adjournment >4 days.
Nidhi Rules	Members, capital, deposits, loans	Capital INR 10 lakh; members 200; NOF INR 20 lakh; deposits 20x NOF; unencumbered deposits 10%; dividend 25%.
447	Fraud	6 months-10 years + fine 1x-3x; public interest min 3 years; lower fraud up to 5 years/fine up to INR 50 lakh/both.
450	No specific penalty	INR 10,000 + INR 1,000/day; max company INR 2 lakh; max officer/person INR 50,000.
455	Dormant company	MSC-1, MSC-2, MSC-3, MSC-4, MSC-5; 2 FY inactive; 5 years dormant triggers strike-off.

3. Answer-writing templates

Registered valuer template

As per section 247 read with the Companies (Registered Valuers and Valuation) Rules, valuation must be by a registered valuer appointed by the Audit Committee, or in its absence by the Board. The valuer must satisfy eligibility, residency, examination and qualification requirements and must not have interest in the asset for 3 years before appointment or 3 years after valuation. Therefore, apply the facts and conclude validity/invalidity.

Strike-off template

Under section 248, RoC may strike off only on specified grounds after giving 30-day notice to company and directors. A company may voluntarily apply only after extinguishing liabilities and passing special resolution or obtaining 75% paid-up share capital consent, subject to section 249 restrictions. Dissolution under section 250 does not wipe liabilities.

Restoration template

Under section 252, any person aggrieved may appeal within 3 years from RoC order; RoC may apply within 3 years for inadvertent/incorrect/insufficient cause strike-off; company/member/creditor/workman may apply before expiry of 20 years from Official Gazette publication. Tribunal order must be filed with RoC within 30 days.

Nidhi template

A Nidhi is a public company declared/regulated under section 406, intended to cultivate thrift and savings, receive deposits from and lend to members only. Apply the exact rule: capital INR 10 lakh, 200 members, NOF INR 20 lakh, deposits 20x NOF, unencumbered term deposit 10%, loan limits based on deposit slab, dividend 25%, director 10 years + 2-year cooling, auditor 5/10 years + 2-year cooling.

Dormant company template

Under section 455, a company formed for future project/asset/IP with no significant accounting transaction or an inactive company can apply in MSC-1 after special resolution or 3/4th value consent. RoC issues MSC-2. Significant accounting transactions exclude RoC fees, legal compliance payments, compliance share allotment, and office/records maintenance. Dormant annual return MSC-3 is due within 30 days from FY end; active status application is MSC-4 with MSC-3.

Chapter 9 - Adjudication, Special Courts, NCLT and NCLAT

Chapter 1-style comprehensive notes + exact limits, thresholds, time periods, penalties, case questions and answer templates

Source discipline: Prepared only from the uploaded material: ICAI Chapter 9 module, Case Scenario Booklet, SPOM Set A All Important Points PDF, and Hemant notes already provided. No online/external research has been used.

How to use these notes

- Read the mega case study first. It converts the whole chapter into one connected story so that timelines and authorities are easy to remember.
- Then study the section-wise notes. Unlike a pure table summary, each section below explains the trigger, authority, procedure, consequence and common exam trap.
- Finally revise the exact limits table and penalties section. Chapter 9 is full of numbers: 2 years, 45 days, 60 days, 90 days, 3 months, 3 years, INR 25 lakh, INR 2 lakh, INR 1 lakh, INR 25,000 to INR 5 lakh, etc.
- No vague expressions like prescribed threshold have been used where the uploaded material gives a number, limit, time period or monetary cap.

Coverage promise: This document covers the dispute redressal mechanism, Sections 407-434, Sections 435-438, Section 439, Section 441, Section 442, Sections 211-212 as cross-reference, Sections 443-446B, Section 454 and Section 454A, along with relevant case scenario questions and ICAI test-your-knowledge answers.

A. Mega Integrated Case Study - The Full Chapter in One Story

Facts

Makhija Developers Limited, a mid-sized real estate company, is involved in multiple legal issues. Its shareholders allege mismanagement and file proceedings before the National Company Law Tribunal. The NCLT passes an order on 20 December 2019 without consent of parties. Mr. Rama, a party to the proceeding, receives the order but due to family difficulties does not immediately act. He files appeal before NCLAT on 15 March 2020, showing sufficient cause for delay. NCLAT passes order on 30 April 2020. Mr. Rama remains dissatisfied and approaches the Supreme Court on 30 September 2020.

Meanwhile, another group company, Excel Limited, allegedly commits offences under the Companies Act. Its registered office is in Bundi district, where two Special Courts have been designated. One offence is punishable with imprisonment of 2 years or more; another offence is punishable below that level. A police report is submitted in one matter. In another matter, a shareholder files a written complaint because dividend was declared but not paid. In yet another matter, the company wants to compound an offence carrying maximum fine of INR 20 lakh, while another offence involves imprisonment and fine. The Registrar has also initiated adjudication proceedings and serves notice on 31 July 2020.

Finally, one party requests mediation during pendency of proceedings before the NCLT, Central Government appoints company prosecutors, and the adjudicating officer imposes penalty. The company repeats the same default within 3 years from the earlier penalty order.

Legal trigger map

Fact/event	Provision	Exact consequence
NCLT order without consent	Section 421	Appeal lies to NCLAT by any person aggrieved. No appeal lies if order was made with consent of parties.
Appeal to NCLAT filed after 45 days but within additional 45 days	Section 421(3)	Normal limit: 45 days from date copy of NCLT order is made available. Extension: further period not exceeding 45 days if sufficient cause is shown. Outer practical cap: 90 days.
NCLAT order challenged before Supreme Court	Section 423	Appeal to Supreme Court only on question of law within 60 days from receipt of NCLAT order. Extension: further 60 days if sufficient cause. Outer practical cap: 120 days.
NCLT wants to amend own order	Section 420	Can rectify mistake apparent from record within 2 years from order if brought to notice of parties; cannot amend if appeal has been preferred.
NCLT/NCLAT delay in disposal	Section 422	Every application/petition/appeal should be disposed of within 3 months. If not, reasons to be recorded; President/Chairperson may extend by not more than 90 days.
Excel offence punishable with imprisonment 2 years or more	Section 435	Special Court composition: single judge holding office as Sessions Judge or Additional Sessions Judge.
Excel offence below 2-year category	Section 435	Special Court composition: Metropolitan Magistrate or Judicial Magistrate of First Class.
Two Special Courts in same area	Section 436	Case goes to the Special Court specified by the concerned High Court.
Accused sent to Magistrate under CrPC section 167	Section 436	Judicial Magistrate may authorize detention up to 15 days in whole; Executive Magistrate up to 7 days in whole.
Summary trial	Section 436(3)	Special Court may try summarily offences punishable with imprisonment not exceeding 3 years; sentence in summary trial cannot exceed 1 year imprisonment.
Offence under Companies Act	Section 439	Every offence is deemed non-cognizable except offences referred to in Section 212(6).
Dividend non-payment complaint by shareholder/member	Section 439(2)	Court can take cognizance on written complaint of Registrar, shareholder/member, or person authorized by Central Government. For issue/transfer of securities and non-payment of dividend,

		SEBI-authorized person may also complain.
Offence fine maximum INR 20 lakh	Section 441	Compounding by Regional Director or officer authorized by Central Government because maximum fine does not exceed INR 25 lakh.
Offence fine more than INR 25 lakh	Section 441	Compounding by Tribunal.
Offence punishable with imprisonment only or imprisonment and fine	Section 441(6)	Not compoundable.
Similar offence within 3 years from previous compounding	Section 441(2)	Cannot be compounded; second/subsequent offence after expiry of 3 years deemed first offence.
Mediation request during pending proceeding	Section 442	Matter may be referred to Mediation and Conciliation Panel by party application or suo motu by CG/NCLT/NCLAT; disposal within 3 months from appointment of expert.
Adjudicating officer notice served on 31 July 2020	Section 454 + Rule 3	Show cause period cannot be less than 15 days and cannot be more than 30 days from service. Last outer date in example: 30 August 2020.
Reply delay in adjudication	Rule 3	Adjudicating officer may extend reply period by further period not exceeding 15 days for recorded reasons/sufficient cause/short notice.
AO decides physical appearance is required	Rule 3	Notice fixing appearance must be issued within 10 working days from receipt of reply.
AO passing order	Rule 3	If physical appearance not required: order within 30 days of expiry of notice/reply period or extended period. If appearance required: order within 90 days of issue of notice.
Non-compliance with AO/RD order within 90 days	Section 454(8)	Company: fine INR 25,000 to INR 5 lakh. Officer/defaulting person: imprisonment up to 6 months or fine INR 25,000 to INR 1 lakh, or both.
Repeated default within 3 years from penalty order	Section 454A	Second/subsequent default penalty = twice the penalty provided for such default.

What-if scenarios to make the case exam-proof

If this happens...	Then apply this rule
If the NCLT order was passed with consent of parties	No appeal lies to NCLAT under Section 421.
If appeal to NCLAT is filed on day 100 from date order copy is made available	Not maintainable under Section 421 because 45 + 45 days is the maximum window.
If Supreme Court appeal is filed on day 121 from receipt of NCLAT order	Not admissible because Section 423 permits 60 days + further 60 days only.
If NCLT order has an apparent mistake but appeal has already been filed	NCLT cannot rectify under Section 420 because amendment is barred once appeal has been preferred.
If Special Court conducts summary trial and wants to give 2 years imprisonment	Not allowed; summary trial sentence cannot exceed 1 year imprisonment.
If offence is under Section 212(6)	It is outside the general non-cognizable rule and is treated as cognizable/non-bailable in the SFIO context.
If offence carries imprisonment and fine	It is not compoundable under Section 441(6).
If offence carries fine only and maximum fine is INR 25 lakh exactly	Regional Director/officer authorized by CG can compound; threshold is does not exceed INR 25 lakh.
If investigation against company has been initiated or is pending	Offence cannot be compounded under the proviso to Section 441(1).
If the same offence was compounded 3 years and 1 day ago	Subsequent offence is deemed a first offence for Section 441 explanation.
If adjudication default relates to section 92(4) or section 137(1)/(2) and is rectified before or within 30 days of AO notice	No penalty shall be imposed and proceedings are deemed concluded for that default.
If OPC/small/start-up/producer company is liable to penalty	Penalty not more than one-half of specified penalty, subject to max INR 2 lakh for company and INR 1 lakh for officer/defaulting person.

B. Complete Section-wise Notes

1. Introduction - dispute redressal under Companies Act, 2013

A dispute resolution mechanism deals with disputes arising between two or more parties in business or legal relationships. Under the Companies Act, 2013, the important dispute and enforcement mechanisms in this chapter are NCLT/NCLAT, Special Court, Mediation and Conciliation Panel, compounding of offences, SFIO, company prosecutors and adjudication of penalties.

Forum / mechanism	Sections	Purpose
NCLT / NCLAT	407 to 434	Company law adjudication, appeals, orders, procedural powers and transfer of pending proceedings.
Special Court	435 to 438	Speedy trial of offences under the Act except section 452.
Non-cognizable offences	439	Specifies general nature of offences and who can set criminal process in motion.
Compounding	441	Settlement of compoundable offences before or after prosecution.
Mediation and Conciliation	442	Friendly settlement of pending matters through panel experts.
Company prosecutors and appeals	443 to 446	Prosecution, appeal against acquittal, compensation for false accusation, and application of fines.
Factors / lesser penalties	446A, 446B	Factors for punishment and reduced penalties for OPC/small/start-up/producer companies.
Adjudication of penalties	454, 454A	Penalty adjudication procedure and repeated default penalty.

2. NCLT and NCLAT [Sections 407 to 434]

Section 407 - Key definitions

Section 407 is a definition section. Do not ignore it because MCQs often test whether a term relates to NCLT or NCLAT.

Term	Meaning
Chairperson	Chairperson of the Appellate Tribunal.
Judicial Member	Member of Tribunal or Appellate Tribunal appointed as such; includes President or Chairperson, as the case may be.
Member	Judicial or Technical Member of Tribunal/Appellate Tribunal; includes President or Chairperson, as the case may be.
President	President of the Tribunal.
Technical Member	Member of Tribunal/Appellate Tribunal appointed as such.

Sections 408 and 410 - Constitution and role

NCLT is a quasi-judicial body for company matters. It consists of a President and such number of Judicial and Technical Members as the Central Government may deem necessary. NCLAT consists of a Chairperson and such number of Judicial and Technical Members as the Central Government may deem fit. Appeal from the Tribunal lies to NCLAT, and NCLAT also hears appeals against NFRA orders under this Act and specified Competition Act matters.

Memory hook: NCLT = Trial/Tribunal stage. NCLAT = Appellate stage. Supreme Court = only question of law from NCLAT order.

Section 420 - Order of Tribunal

- Reasonable opportunity of being heard: NCLT may pass such orders as it thinks fit after giving parties reasonable opportunity.
- Rectification/amendment: NCLT may amend its order within 2 years from the date of the order to rectify a mistake apparent from record.
- Trigger for amendment: mistake must be brought to its notice by the parties.
- Restriction: NCLT cannot amend an order against which appeal has been preferred under the Act.
- Copy of order: NCLT sends copy of every order to all parties concerned.

Exam trap: Review is not the same as rectification. The Anubhav Anilkumar Agarwal case says NCLAT has no express review power under Rule 11; inherent power can only be used for correction of mistake.

Section 421 - Appeal from orders of Tribunal

- Any person aggrieved by an order of the Tribunal may prefer appeal to the Appellate Tribunal.
- No appeal lies from an order made by the Tribunal with the consent of parties.
- Time limit: 45 days from the date on which copy of the NCLT order is made available to the aggrieved person.
- Condonation: NCLAT may entertain after 45 days but within further period not exceeding 45 days, if sufficient cause is shown.
- NCLAT passes order after reasonable opportunity and may confirm, modify or set aside the order appealed against.
- NCLAT sends copy of every order to Tribunal and parties to appeal.

Appeal	Normal limit	Extension	Total maximum exam window
NCLT to NCLAT	45 days from date copy of order is made available	Further period not exceeding 45 days	90 days

Section 422 - Expeditious disposal

Every application or petition before the Tribunal and every appeal before the Appellate Tribunal should be dealt with and disposed of as expeditiously as possible. The endeavour is disposal within 3 months from presentation/filing. If not disposed within 3 months, the Tribunal/Appellate Tribunal must record reasons. The President/Chairperson may extend the period by a period not exceeding 90 days.

Example memory: If application is filed on 15 September, 3 months expires on 14 December. With maximum 90-day extension, latest date becomes around 14 March. An order on 16 March is beyond the permitted window in the ICAI example.

Section 423 - Appeal to Supreme Court

- Any person aggrieved by an NCLAT order may appeal to Supreme Court.
- Appeal lies only on any question of law arising out of such order.
- Time limit: 60 days from date of receipt of NCLAT order.
- Condonation: Supreme Court may allow further period not exceeding 60 days if sufficient cause is shown.
- Maximum exam window: 120 days. Filing beyond 120 days is not admissible.

Section 424 - Procedure before Tribunal and Appellate Tribunal

NCLT/NCLAT are not bound by the Code of Civil Procedure, 1908. They are guided by principles of natural justice and may regulate their own procedure, subject to the Act, IBC and rules. Still, they have civil-court powers for specific matters.

Civil court power available to NCLT/NCLAT	Exam language
Summoning and enforcing attendance	Can summon any person and examine him on oath.
Discovery and production of documents	Can require discovery and production of documents.
Evidence on affidavits	Can receive evidence on affidavits.
Public record/documents	Can requisition public record/document or copy, subject to Indian Evidence Act sections 123 and 124.
Commissions	Can issue commissions for examination of witnesses or documents.
Default/ex parte	Can dismiss representation for default or decide it ex parte.
Set aside default/ex parte orders	Can set aside order of dismissal for default or ex parte order.
Other prescribed matters	Any other matter prescribed.

Orders of NCLT/NCLAT may be enforced like a decree of a court. Proceedings before them are deemed judicial proceedings under IPC sections 193 and 228 and for purposes of section 196 IPC. NCLT/NCLAT are deemed civil courts for CrPC section 195 and Chapter XXVI.

Sections 425, 426, 428, 429, 430, 431, 432, 433 and 434

Section	Detailed rule
425 - Contempt	NCLT/NCLAT have same jurisdiction, powers and authority for contempt of themselves as High Court under Contempt of Courts Act, with references modified accordingly.
426 - Delegation	Tribunal/Appellate Tribunal may by general/special order direct officers/employees/authorized persons to inquire into a matter connected with proceedings/appeal and report.
428 - Good faith protection	No suit/prosecution/legal proceeding against Tribunal, President, Members, officers, NCLAT Chairperson/Members/officers, liquidator or authorized person for good-faith acts under the Act.
429 - Assistance for custody	NCLT may request in writing Chief Metropolitan Magistrate, Chief Judicial Magistrate or District Collector to take possession of property, books of account or documents and entrust them to Tribunal/authorized person. Such officer may use necessary force; act cannot be questioned in court/authority.
430 - Civil court barred	No civil court jurisdiction over matters NCLT/NCLAT can determine; no injunction by any court/authority in respect of actions taken/to be taken under powers of NCLT/NCLAT.
431 - Vacancy not fatal	Acts/proceedings of NCLT/NCLAT cannot be questioned or invalidated merely due to vacancy or defect in constitution.
432 - Legal representation	Party may appear in person or authorize CA, CS, CMA, Legal Practitioner or any other person to present case.
433 - Limitation	Limitation Act, 1963 applies as far as may be to proceedings/appeals before NCLT/NCLAT.
434 - Transfer of pending proceedings	CLB matters transferred to NCLT from notified date. Appeal from CLB order to High Court within 60 days on question of law, extendable by further 60 days. Certain Companies Act 1956 proceedings before District Court/High Court transferred to Tribunal subject to prescribed stage and provisos; voluntary winding-up cases with advertised resolution but company not dissolved before 1 April 2017 continue under 1956 Act/Court Rules.

High-yield distinction: Section 430 bars civil court jurisdiction where NCLT/NCLAT is empowered. Section 431 says even if there is vacancy/defect in Tribunal constitution, proceedings are not invalid merely on that ground.

3. Special Courts [Sections 435 to 438]

Section 435 - Establishment and composition

The Central Government may, by notification, establish or designate as many Special Courts as necessary for speedy trial of offences under the Act, except section 452. Special Court composition depends on the imprisonment level of the offence.

Type of offence	Special Court composition
Offence punishable with imprisonment of 2 years or more	Single judge holding office as Sessions Judge or Additional Sessions Judge.
Other offences	Metropolitan Magistrate or Judicial Magistrate of First Class.

Appointment of Special Court judge/magistrate is by Central Government with concurrence of the Chief Justice of the High Court within whose jurisdiction the judge is working.

Section 436 - Offences triable by Special Courts

- All offences specified under section 435(1) are triable only by the Special Court established for the area in which the registered office of the company relating to the offence is situated.
- If more than one Special Court exists for the area, the case goes to the one specified by the High Court concerned.
- If accused/suspected person is forwarded to a Magistrate under section 167 CrPC, Judicial Magistrate may authorize detention up to 15 days in the whole; Executive Magistrate may authorize detention up to 7 days in the whole.
- If detention is unnecessary, Magistrate forwards person to Special Court having jurisdiction.
- Special Court may exercise same power under section 167 CrPC as a Magistrate having jurisdiction.
- Special Court may take cognizance upon police report or complaint without the accused being committed to it for trial.
- Special Court trying an offence under the Act may also try another offence with which the accused may be charged at the same trial under CrPC.

Summary trial under Section 436(3)

Point	Exact rule
Eligible offences	Special Court may try summarily any offence under the Act punishable with imprisonment for a term not exceeding 3 years.
Maximum sentence in summary trial	No sentence of imprisonment exceeding 1 year can be passed in summary trial.
When regular trial becomes necessary	If Special Court finds sentence exceeding 1 year may have to be passed, or for any other reason summary trial is undesirable, it records order, recalls witnesses if needed, and proceeds/rehears as regular trial.

Sections 437 and 438

Section 437 gives High Court appeal and revision powers as if the Special Court within its local limits were a Court of Session trying cases within those limits. Section 438 applies the Code of Criminal Procedure, 1973 to Special Court proceedings, except as otherwise provided in the Act. Special Court is deemed to be Court of Session or Metropolitan Magistrate/Judicial Magistrate First Class, as the case may be; person conducting prosecution is deemed Public Prosecutor.

Important Points PDF adds a useful clarity: Special Courts are for prosecution involving fines and imprisonment, not for mere penalties; Special Court is treated as criminal court, not civil court.

4. Offences to be non-cognizable [Section 439]

The default rule is that every offence under the Companies Act, 2013 is non-cognizable, except offences referred to in Section 212(6). This is crucial because non-cognizable means police cannot arrest without warrant or start investigation in the same manner as cognizable offences.

Situation	Rule / person who can complain
Every offence under Companies Act except Section 212(6)	Deemed non-cognizable within meaning of CrPC.
Court taking cognizance of offence by company/officer	Only on written complaint of Registrar, shareholder/member of company, or person authorized by Central Government.
Offence relating to issue and transfer of securities and non-payment of dividend	Court may take cognizance on written complaint by person authorized by SEBI.
Prosecution by company of any of its officers	Section 439(2) restriction does not apply.
Complainant is Registrar or person authorized by CG	Presence of such officer before Court not necessary unless Court requires personal attendance.
Action by liquidator in winding-up matters	Section 439(2) does not apply; liquidator is not deemed officer of company.
Government companies	Court takes cognizance on complaint in writing of person authorized by Central Government.

5. Compounding of certain offences [Section 441]

Compounding is a statutory settlement of compoundable offences. It may happen before or after institution of prosecution. The authority depends on the maximum amount of fine, and some offences can never be compounded.

Question	Exact answer
Who can compound?	Tribunal; or Regional Director/CG-authorized officer where maximum fine does not exceed INR 25 lakh.
Threshold for RD/authorized officer	Maximum amount of fine for the offence does not exceed INR 25 lakh.
When Tribunal is required	Other compoundable cases, including where maximum fine exceeds INR 25 lakh.
Upper cap on compounding sum	Cannot exceed maximum amount of fine imposable for the offence compounded.
Additional fee under Section 403	Additional fee already paid is considered while specifying compounding sum.
Investigation pending/initiated	Offence cannot be compounded if investigation against company has been initiated or is pending under the Act.
Similar offence within 3 years of prior compounding	Section 441(1) does not apply; cannot compound. After expiry of 3 years, subsequent offence deemed first offence.

Application route	Application made to Registrar; Registrar forwards with comments to Tribunal/RD/CG-authorized officer.
Intimation to RoC after compounding	Company must intimate Registrar within 7 days from date offence is compounded.
If compounded before prosecution	No prosecution shall be instituted for that offence against the relevant offender.
If compounded after prosecution	Registrar gives written notice to court; company/officer is discharged for that offence.
Default requiring filing/registering document	Compounding authority may direct officer/employee to file/register/deliver/send return/account/document on payment of fee and additional fee within specified time.
Failure to comply with compounding order	Maximum fine for offence proposed to be compounded becomes twice the amount provided in corresponding punishment section.
Non-compoundable offences	Offence punishable with imprisonment only OR imprisonment and also fine.

Memory hook: Fine-only offences are usually compoundable. Imprisonment-only and imprisonment-plus-fine offences are not compoundable. Fine <= INR 25 lakh goes to RD/authorized officer; fine > INR 25 lakh goes to Tribunal.

6. Mediation and Conciliation Panel [Section 442]

- Central Government maintains a panel of experts called the Mediation and Conciliation Panel.
- Panel is for mediation between parties during pendency of proceedings before Central Government, Tribunal or Appellate Tribunal.
- Party route: any party may apply at any time during proceedings for reference to the Panel.
- Suo motu route: Central Government, Tribunal or Appellate Tribunal may itself refer the matter to experts from the Panel.
- Timeline: Panel must dispose of the referred matter within 3 months from the date of appointment of expert from the panel and forward recommendations.
- Aggrieved party may file objections to recommendations before CG/NCLT/NCLAT, as the case may be.

7. SFIO cross-reference [Sections 211 and 212]

This chapter briefly references SFIO, though detailed provisions are in Chapter 4. Remember the key points because Section 439 non-cognizable rule expressly excludes offences referred to in Section 212(6).

- Central Government establishes Serious Fraud Investigation Office to investigate frauds relating to company.
- SFIO is headed by a Director and consists of experts from banking, corporate affairs, taxation, capital market and other fields.
- Central Government may assign investigation to SFIO on Registrar/inspector report under section 208, company special resolution, public interest, or request from any Central/State Government department.
- Once assigned to SFIO, Director SFIO may designate inspectors for investigation.

8. Company prosecutors, appeal against acquittal, compensation and fines [Sections 443 to 446]

Section	Detailed provision
443 - Company prosecutors	Central Government may appoint one or more persons as company prosecutors for prosecutions arising out of the Act generally, for any case, in any case, or specified class of cases in any local area. They have powers and privileges of Public Prosecutors under CrPC section 24.
444 - Appeal against acquittal	Central Government may direct any company prosecutor or authorize any person by name or office to present appeal from order of acquittal passed by any court other than High Court. Such appeal is deemed validly presented.
445 - Compensation for accusation without reasonable cause	CrPC section 250 applies mutatis mutandis to compensation for accusation without reasonable cause before Special Court or Court of Session.
446 - Application of fines	Court imposing fine may direct whole or part of fine towards costs of proceedings or reward to person on whose information proceedings were instituted.

9. Factors for punishment and lesser penalties [Sections 446A and 446B]

Section 446A - Factors for determining level of punishment

Court or Special Court, while deciding amount of fine or imprisonment under the Act, shall have due regard to:

- size of company
- nature of business carried on by company
- injury to public interest
- nature of default
- repetition of default

Section 446B - Lesser penalties for OPC, small company, start-up company and Producer Company

Where penalty is payable for non-compliance by One Person Company, small company, start-up company or Producer Company, or by officer in default/any other person in respect of such company, the penalty shall not be more than one-half of the penalty specified in the relevant provision, subject to maximum limits.

Person liable	Reduced penalty rule
Company	Not more than one-half of specified penalty, subject to maximum INR 2 lakh.
Officer in default / any other person	Not more than one-half of specified penalty, subject to maximum INR 1 lakh.
Start-up company meaning	Private company incorporated under Companies Act, 2013/1956 and recognized as start-up as per Central Government DPIIT notification.
Producer Company meaning	Company defined in section 378A(l).

10. Adjudication of penalties [Section 454 + Rules 3 and 3A]

Section 454 creates a penalty adjudication mechanism. The Central Government appoints officers not below the rank of Registrar as adjudicating officers. The procedure is highly time-bound and is very MCQ-friendly.

Step	Exact rule / limit
Appointment of AO	Central Government appoints officers not below rank of Registrar as adjudicating officers by order in Official Gazette; jurisdiction specified in appointment order.
Written show-cause notice	Issued to company, officer in default or any other person. Response period cannot be less than 15 days and cannot be more than 30 days from date of service.
Notice contents	Must state nature of non-compliance/default and draw attention to relevant penal provision and maximum penalty imposable.
Reply	Filed in electronic mode within notice period.
Extension for reply	Further period not exceeding 15 days, for reasons recorded in writing, if sufficient cause/short notice etc.
Physical appearance notice	If AO considers physical appearance required after reply, notice fixing date must be issued within 10 working days from date of receipt of reply.
Oral representation	If person asks in electronic reply, AO shall allow oral representation after fixing date of appearance.
Order when physical appearance not required	Within 30 days of expiry of notice period or extended period.
Order when physical appearance required	Within 90 days of date of issue of notice.
Delayed order	Order not invalid merely because passed after 30/90 days, but reasons for delay must be recorded.
Order copy	Sent to concerned company/officer/defaulting person/all of them and Central Government; copy uploaded on website.
AO powers	Summon/enforce attendance after recording reasons; order evidence or production of relevant document.
Non-appearance/no reply	AO may impose penalty in absence after recording reasons.
Penalty payment	Penalty paid through MCA portal only.
Credit of penalties	All sums realised by way of penalties credited to Consolidated Fund of India.
E-adjudication platform	All proceedings of AO and RD under rules take place in electronic mode on e-adjudication platform after commencement of 2024 amendment; pending matters continue under earlier rules.
If email unavailable	Notice by post to last intimated/available address; if no address available, notice placed on e-adjudication platform.
AO order powers under Section 454(3)	Impose penalty and direct rectification of default wherever he considers fit.
No penalty for quick rectification of certain annual filings	If default relates to Section 92(4) or Section 137(1)/(2) and is rectified before or within 30 days of AO notice, no penalty and proceedings deemed concluded for that default.
Appeal from AO order	To Regional Director having jurisdiction.
Appeal time limit	Within 60 days from date copy of AO order received by aggrieved person.
RD appeal order	After opportunity of being heard, RD may confirm, modify or set aside the AO order.
Company non-compliance with AO/RD order	If company fails to comply within 90 days of receipt of order: fine INR 25,000 to INR 5 lakh.
Officer/defaulting person non-compliance	If officer/defaulting person fails to comply within 90 days: imprisonment up to 6 months or fine INR 25,000 to INR 1 lakh, or both.

Factors while adjudging quantum of penalty

- size of the company
- nature of business carried on by company
- injury to public interest
- nature of the default
- repetition of default
- amount of disproportionate gain/unfair advantage wherever quantifiable
- amount of loss caused to investor/group of investors/creditors
- penalty cannot be less than minimum penalty prescribed under relevant section
- if fixed sum of penalty is provided, adjudicating officer imposes that fixed sum

11. Penalty for repeated default [Section 454A]

If a company, officer or any other person has already been subjected to penalty for default under any provision of the Act and again commits such default within 3 years from the date of order imposing penalty passed by the adjudicating officer or Regional Director, the second/subsequent default penalty equals twice the amount of penalty provided for that default under the relevant provisions.

Memory hook: 454A = repeat within 3 years = twice the penalty. This is a penalty provision, not a compounding provision.

C. Exact Limits, Thresholds, Time Periods and Authorities - Master Revision Table

Topic	Exact rule
NCLT order rectification	Within 2 years from date of order; only mistake apparent from record; not if appeal preferred.
Appeal NCLT to NCLAT	45 days from date copy of NCLT order is made available.
NCLAT condonation	Further period not exceeding 45 days.
NCLT/NCLAT disposal	Endeavour within 3 months from presentation/filing.
Extension for disposal	Not exceeding 90 days by President/Chairperson after reasons recorded.
Appeal NCLAT to Supreme Court	60 days from date of receipt of NCLAT order; only question of law.
SC condonation	Further period not exceeding 60 days.
CLB order appeal to High Court under transfer provisions	60 days from communication; further extension not exceeding 60 days.
Special Court composition - serious offences	Imprisonment 2 years or more: Sessions Judge or Additional Sessions Judge.
Special Court composition - other offences	Metropolitan Magistrate or Judicial Magistrate First Class.
Judicial Magistrate detention under section 436	Up to 15 days in whole.
Executive Magistrate detention under section 436	Up to 7 days in whole.
Summary trial eligible offence	Offence punishable with imprisonment not exceeding 3 years.
Max sentence in summary trial	Imprisonment not exceeding 1 year.
Compounding by RD/authorized officer	Where maximum fine does not exceed INR 25 lakh.
Compounding by Tribunal	Other compoundable offences; especially fine exceeding INR 25 lakh.
Similar offence after compounding	Within 3 years: not compoundable. After 3 years: deemed first offence.

Intimation of compounding to RoC	Within 7 days from date offence is compounded.
Mediation Panel disposal	Within 3 months from date of appointment of expert.
Lesser penalty - company	Half penalty, subject to max INR 2 lakh.
Lesser penalty - officer/other person	Half penalty, subject to max INR 1 lakh.
Adjudication show-cause response period	At least 15 days and maximum 30 days from service.
Extension for adjudication reply	Further period not exceeding 15 days.
Physical appearance notice by AO	Within 10 working days from receipt of reply.
AO order without physical appearance	Within 30 days of expiry of notice period/extended period.
AO order with physical appearance	Within 90 days of date of issue of notice.
Rectification of Section 92(4)/137(1)/(2) default	If rectified before or within 30 days of AO notice, no penalty and proceedings deemed concluded.
Appeal against AO order	To Regional Director within 60 days from receipt of order copy.
Non-compliance with AO/RD order	After 90 days from receipt of order triggers Section 454(8) consequence.
Company fine for non-compliance with AO/RD order	INR 25,000 to INR 5 lakh.
Officer/defaulting person punishment for non-compliance with AO/RD order	Imprisonment up to 6 months or fine INR 25,000 to INR 1 lakh, or both.
Repeated default penalty	Within 3 years from AO/RD penalty order: twice the penalty for such default.

D. Dedicated Penalties and Consequences Section

Default / situation	Provision	Penalty / consequence
Non-compliance with AO/RD order by company	Section 454(8)(i)	Fine not less than INR 25,000 and may extend to INR 5 lakh, if order not complied within 90 days from receipt.
Non-compliance with AO/RD order by officer/defaulting person	Section 454(8)(ii)	Imprisonment up to 6 months or fine INR 25,000 to INR 1 lakh, or both, if order not complied within 90 days from receipt.
Repeated default	Section 454A	Second/subsequent default within 3 years from AO/RD penalty order: twice the penalty provided for that default.
OPC/small/start-up/producer company reduced penalty	Section 446B	Not more than half of specified penalty; max INR 2 lakh for company and INR 1 lakh for officer/defaulting person.
Failure to comply with compounding order to file/register document	Section 441(5)	Maximum fine for offence proposed to be compounded becomes twice the amount provided in corresponding punishment section.
Fraud - important cross-link from Important Points	Section 447	Serious fraud: imprisonment 6 months to 10 years + fine 100% to 300% of fraud amount; if public interest involved, minimum imprisonment 3 years. Smaller fraud not involving public interest: imprisonment up to 5 years or fine up to INR 50 lakh or both.
False statement on oath/affidavit etc. - cross-link	Section 448/449 concept in Important Points	Important Points note: false statement on oath/affidavit etc. punishable with 3 to 7 years imprisonment and fine up to INR 10 lakh.

E. Relevant Case Scenario Booklet Integration

Case Scenario 27 - Surya Energy Private Limited appeal to NCLAT

In Case Scenario 27, Surya Energy Private Limited is aggrieved by an order passed by the Tribunal under Section 420 and wants to appeal to NCLAT. The relevant Chapter 9 question asks within how much time appeal can be filed.

Question	Answer	Reasoning
Within how much time from receipt of Tribunal order can Surya Energy Private Limited appeal to NCLAT?	Option (c): within 45 days from date of receipt/copy made available.	Section 421(1) allows any aggrieved person to appeal to Appellate Tribunal. Section 421(3) requires appeal within 45 days from date copy of Tribunal order is made available. NCLAT may condone further period not exceeding 45 days if sufficient cause is shown.

Why this belongs to Chapter 9: although Case Scenario 27 mainly discusses dormant company provisions, Question 5 directly tests Section 421 appeal from Tribunal to NCLAT.

F. ICAI Test Your Knowledge - MCQs with answers

Q	Core issue	Correct answer	Reason
1	Every petition filed before Tribunal should be disposed of within what period?	Option (c): within 3 months from date of presentation.	Section 422: endeavour to dispose application/petition/appeal within 3 months; possible extension up to 90 days.
2	Trial of offence under Companies Act by Special Court relates to which offence?	Option (d): punishable with imprisonment for a term not exceeding 3 years.	This MCQ is linked to summary trial under Section 436(3): Special Court may try summarily offences punishable with imprisonment not exceeding 3 years; summary sentence cannot exceed 1 year.
3	Makhija Developers wants to appeal NCLT order. Best course?	Option (b): appeal within 45 days from date copy of order is made available.	Section 421 gives 45 days for appeal to NCLAT, with further 45 days possible on sufficient cause.
4	NCLT order dated 23 Nov 2021 contains mistake apparent from record. Maximum period to amend?	Option (c): within 2 years, provided no appeal has been filed.	Section 420: rectification of mistake apparent from record within 2 years; not if appeal preferred.

G. Descriptive Questions - Exam-ready answers

1. Can court suo motu initiate action for allegations of fraud/irregularity against director?

Answer: Section 439 provides that offences under the Act are non-cognizable, except offences referred to in Section 212(6). No court shall take cognizance of an offence alleged to have been committed by company/officer except on written complaint of the Registrar, a shareholder/member of the company, or a person authorized by Central Government. Therefore, the court cannot initiate suo motu action against the director merely because allegations were raised in AGM, unless the required written complaint is made.

2. Explain Mediation and Conciliation Panel under Section 442

Answer: Central Government maintains a Mediation and Conciliation Panel consisting of experts for mediation between parties during pendency of proceedings before CG, Tribunal or Appellate Tribunal. Any party may apply for reference during proceedings, in prescribed form and with prescribed fees. Also, CG/NCLT/NCLAT may suo motu refer the matter to experts. The Panel follows prescribed procedure and must dispose of the matter within 3 months from date of appointment of expert and forward recommendations. Aggrieved party may file objections to CG/NCLT/NCLAT as the case may be.

3. Cognizance and non-cognizable offences

Answer: Court takes cognizance of offences under the Act only on written complaint of Registrar, shareholder/member, or person authorized by Central Government. For offences relating to issue/transfer of securities and non-payment of dividend, complaint by SEBI-authorized person is also sufficient. Every offence under the Companies Act is deemed non-cognizable except Section 212(6) offences. Section 212(6) offences are cognizable and non-bailable in the SFIO context.

4. Which Special Court has jurisdiction if there are two Special Courts in the area?

Answer: Under Section 436, offences are triable only by Special Court established for the area where registered office of company is situated. If more than one Special Court exists for such area, the case goes to the Special Court specified by the High Court concerned.

5. Show cause notice served on 31 July 2020 - by when can parties be required to present?

Answer: Under Rule 3 of Companies (Adjudication of Penalties) Rules, before adjudging penalty, adjudicating officer issues written show-cause notice requiring response within the period specified, which must not be less than 15 days and must not be more than 30 days from date of service. Therefore, if notice is served on 31 July 2020, the maximum date is 30 August 2020.

6. Appeal to Supreme Court filed on 30 September 2020 against NCLAT order dated 30 April 2020

Answer: Section 423 allows appeal to Supreme Court from NCLAT order on question of law within 60 days from receipt of order. Supreme Court may allow further period not exceeding 60 days if sufficient cause is shown. Thus maximum window is 120 days. Filing on 30 September 2020 is beyond the 120-day outer limit from 30 April 2020; hence appeal is not admissible.

H. Examiner Traps and Last-day Revision

Trap	Correct exam answer
NCLT rectification vs appeal	NCLT can rectify within 2 years only if no appeal has been preferred.
NCLAT appeal timeline	45 days + maximum further 45 days; do not write 60 days.
Supreme Court appeal timeline	60 days + maximum further 60 days and only on question of law.
Special Court composition	2 years or more imprisonment = Sessions/Addl Sessions Judge; other offences = Metropolitan/Judicial Magistrate First Class.
Summary trial	Eligible if offence punishment not exceeding 3 years; sentence cannot exceed 1 year.
Non-cognizable rule	All offences non-cognizable except Section 212(6).
Who can complain	Registrar, shareholder/member, CG-authorized person; SEBI-authorized person for issue/transfer securities and non-payment dividend.
Compounding threshold	RD/authorized officer up to INR 25 lakh maximum fine; Tribunal above that.
Non-compoundable	Imprisonment-only and imprisonment-plus-fine offences.
Similar offence repeat under compounding	Within 3 years from previous compounding = not compoundable; after 3 years = deemed first offence.
Adjudication notice	Show cause period 15-30 days from service; reply extension max 15 days.
AO order timeline	No physical appearance = 30 days; physical appearance = 90 days.
AO/RD order non-compliance	90 days from receipt triggers fines/imprisonment.
Repeated default penalty	Section 454A: within 3 years = twice penalty.

One-page final memory chart

Section	Super-condensed memory point
420	NCLT order; hearing; rectification within 2 years; no rectification if appeal filed.
421	NCLT to NCLAT appeal: 45 + 45 days; no appeal from consent order.
422	Disposal: 3 months + extension up to 90 days.
423	NCLAT to Supreme Court: 60 + 60 days; question of law.

424	Natural justice + civil court powers + judicial proceedings.
425	Contempt powers like High Court.
429	NCLT can seek assistance of CMM/CJM/District Collector for custody of property/books/docs.
430	Civil court jurisdiction barred.
431	Vacancy/defect does not invalidate proceedings.
432	Appear personally or through CA/CS/CMA/legal practitioner/any other person.
433	Limitation Act applies.
434	Transfer of pending CLB/court proceedings; CLB appeal to High Court 60 + 60 days.
435	Special Courts; composition depends on 2-year imprisonment threshold.
436	Special Court trial, detention 15/7 days, summary trial 3-year offence, sentence max 1 year.
439	Offences non-cognizable except Section 212(6); written complaint requirement.
441	Compounding; RD up to INR 25 lakh; Tribunal beyond; not compoundable if imprisonment only or imprisonment + fine.
442	Mediation and Conciliation Panel; dispose within 3 months.
443-446	Company prosecutors, appeal against acquittal, compensation, application of fines.
446A	Factors: size, business nature, public interest injury, default nature, repetition.
446B	Lesser penalties: half, max INR 2 lakh company and INR 1 lakh officer/other person.
454	Adjudication: notice 15-30 days, reply extension 15 days, AO order 30/90 days, appeal to RD 60 days.
454A	Repeated default within 3 years = twice penalty.

I. Quick answer-writing templates

Appeal to NCLAT template

As per Section 421, any person aggrieved by order of Tribunal may prefer appeal to NCLAT. However, no appeal lies from consent order. Appeal must be filed within 45 days from date copy of order is made available. NCLAT may allow further period not exceeding 45 days on sufficient cause. Applying this, ...

Appeal to Supreme Court template

As per Section 423, any person aggrieved by order of NCLAT may appeal to Supreme Court only on question of law within 60 days from receipt of order. Supreme Court may allow further period not exceeding 60 days on sufficient cause. Therefore maximum period is 120 days. Applying this, ...

Special Court template

Under Section 435, Special Court composition depends on punishment: offences punishable with imprisonment of 2 years or more are tried by single judge being Sessions Judge/Addl Sessions Judge; other offences by Metropolitan Magistrate/Judicial Magistrate First Class. Under Section 436, if more than one Special Court exists, High Court specifies the court. Applying this, ...

Compounding template

Section 441 allows compounding of offences not punishable with imprisonment only or imprisonment and fine. If maximum fine does not exceed INR 25 lakh, RD/CG-authorized officer may compound; other compoundable cases go to Tribunal. Similar offence within 3 years of earlier compounding cannot be compounded. Investigation pending also bars compounding. Applying this, ...

Adjudication template

Under Section 454 read with Rule 3, AO issues show cause notice giving 15-30 days from service; reply extension may be granted up to further 15 days. If physical appearance required, notice must be issued within 10 working days from receipt of reply. AO order is within 30 days where no physical appearance required and within 90 days where appearance occurs. Appeal to RD lies within 60 days. Applying this, ...

SPOM SET A - CORPORATE AND ECONOMIC LAWS

Chapter 10: e-Filing

Comprehensive Chapter 1-style Notes with Exact Limits, Forms, Thresholds, Fees, Penalties, Case Study and Exam Traps

Source restriction followed

• Prepared only from the uploaded ICAI Chapter 10 material, ICAI Case Scenario Booklet, SPOM Important Points PDF and Hemant notes available in the conversation.

• Exact limits, time periods, thresholds, fees, forms and consequences are stated wherever available in the uploaded material.

• Where the chapter itself uses general wording such as cash limits as stipulated by law, no external law has been added.

How to Use These Notes

Use the mega case study first. Then revise the section-wise notes. Finally, use the exam traps, penalties, XBRL thresholds and e-form list for last-day revision. The objective is to make the chapter retainable without reducing it into only tables.

- First reading: read the mega case study and the provision-wise explanation.
- Second reading: mark the trigger points - when e-filing is mandatory, when physical filing is still required, when XBRL applies, and when additional fees apply.
- Final revision: revise exact thresholds: paid-up capital Rs. 5 crore, turnover Rs. 100 crore, Section 92/137 delay Rs. 100 per day, DIN KYC delayed fee Rs. 5,000, ACTIVE delayed fee Rs. 10,000, and preservation of original documents permanently/8 years.

Mega Integrated Case Study: One Company, Every Provision Triggered

Facts: Triveni Data Systems Limited (TDSL) is a listed Indian company. It has a paid-up share capital of Rs. 6 crore and turnover of Rs. 135 crore. It has two Indian subsidiaries, one foreign branch and one dormant group entity. During FY 2025-26, it files financial statements, annual return, auditor appointment, charge creation, director appointment, registered office change, cost auditor intimation, CSR forms and a few applications to the Regional Director. One director resigns, one auditor resigns, a new charge is created in favour of a bank, and the company also proposes to use XBRL analytics to compare related party pricing with peer companies. The team tries to send ADT-3 through ordinary e-mail and files one form after altering its content after DSC signing. It also delays filing AOC-4 and MGT-7. This single story triggers nearly every exam point in Chapter 10.

Case Study Solution - Provision Triggers

- MCA21 trigger: TDSL uses MCA21 because it is the statutory e-governance platform for company filings, inspection, approvals, fees refund, DIN services, charge registration and redressal of investor complaints.
- Section 398 trigger: applications, balance sheet/financial statements, returns, declarations, memorandum, articles, charge particulars and other documents may be required to be filed electronically and authenticated as prescribed.
- Rule 7 trigger: filings must be in computer-readable electronic form in PDF or other specified format through the MCA portal or notified website.
- Physical filing trigger: if a document must be filed on non-judicial stamp paper, physical submission is also needed unless stamp duty is paid electronically through the portal/notified website.
- Rs. 100 stamp-duty exception trigger: if stamp duty payable on documents not covered for e-stamp through the portal is Rs. 100 or less, scanned stamped documents may be electronically filed and separate physical submission is not required, except for compounding, adjudication of penalties, or applications to CG/RD.
- Document preservation trigger: originals relating to incorporation and changes in MOA/AOA must be retained permanently. In other cases, originals must be retained for at least 8 years from filing.
- Authentication trigger: e-forms require DSC of authorised signatories. MD, Director, Secretary or other KMP may authenticate company e-forms.
- False filing trigger: if an e-form contains false/misleading information or omits material fact, consequences under sections 448 and 449 arise; DSC may also be deactivated until final decision.

- XBRL trigger: because TDSL is listed, has paid-up capital above Rs. 5 crore and turnover above Rs. 100 crore, it must file financial statements in AOC-4 XBRL unless an express exemption applies. Its Indian subsidiaries are also covered due to listed company linkage.
- Continuation trigger: once TDSL files in XBRL format, it must continue filing financial statements and other documents in XBRL in succeeding years even if it later falls outside the threshold classes.
- Delay trigger: delay in Sections 92 and 137 filings attracts additional fee of Rs. 100 per day after the period provided in those sections, without prejudice to other legal action or penalty/punishment.
- Section 400 trigger: electronic form may be exclusive, alternative to physical form, or in addition to physical form.
- Section 401 trigger: Central Government may provide value-added services electronically and levy prescribed fee.
- Section 402 trigger: Information Technology Act, 2000 provisions relating to electronic records apply where not inconsistent with the Companies Act.
- MCA21 V3 trigger: e-scrutiny, e-adjudication, e-consultation, Compliance Management System and MCA Lab support advanced digital enforcement and scrutiny.

What if scenarios from the mega case

• If ADT-3 is sent through ordinary e-mail, it is not valid e-filing because submission must be through MCA21 portal functionality.

• If content is changed after DSC signing, the document becomes invalid and can be rejected.

• If AOC-4/MGT-7 is delayed, Section 403 first proviso applies: Rs. 100 per day additional fee for Sections 137/92 filings.

• If company is a banking, insurance, NBFC or housing finance company, it is exempt from XBRL filing under the XBRL Rules even if otherwise large.

• If physical stamped documents are required but stamp duty is electronically paid, separate physical submission is not required.

• If the company is defaulting in annual filings, event-based recording of changes will not be accepted except specified filings such as court order, financial statements, compounding application, IEPF transfer form, auditor removal application and GNL-1 for making company active.

Coverage Map - Do Not Miss These Sections

Topic	Exact coverage in Chapter 10
MCA21 e-Governance Project	Meaning, launch, purpose, services, stakeholders, benefits and SRN.
Section 398	Electronic filing of applications, documents, notices, registers, inspection, fees and Registrar functions.
Rule 7 of Companies (Registration Offices and Fees) Rules, 2014	Manner and conditions of filing; PDF/electronic format; stamp paper situations; retention of originals; restrictions on defaulting companies.
Rule 8	Authentication by DSC; authorised signatory; professional responsibility; DIR/KMP change filings; DSC class II/class III; false filings and DSC deactivation.
e-Forms	Important forms across approval, RD, ROC, change, DIN, charge, incorporation, compliance, managerial personnel, investor services and annual filing.
XBRL	Meaning, benefits, taxonomy, instance document, working, applicability, continuation rule, exemptions and analytics use.
Section 400	Electronic form may be exclusive, alternative or in addition to physical form.
Section 401	Value-added services through electronic form and related fee.
Section 402	Information Technology Act provisions apply to electronic records where not inconsistent.
Section 403	Filing fees, additional fees, higher additional fees, delay consequences, fee tables, charge filing fees, DIR-3 KYC and ACTIVE fees.
MCA21 Version 3.0	e-Scrutiny, e-Adjudication, e-Consultation, CMS, MCA Lab, chat bot, mobile apps, dashboards, APIs.
Ethics case studies	NFRA/ROC investigation-oriented professional misconduct case studies and how digital records/XBRL/public data support detection.
ICAI Test Your Knowledge	MCQs and descriptive Q&A included with answer key.

1. Introduction to MCA21

MCA21 is the e-governance project of the Ministry of Corporate Affairs. It was launched as a mission mode project to provide secure online services to stakeholders and to automate company law filings and compliance. The project name reflects MCA as an organisation capable of fulfilling stakeholder expectations in the 21st century.

Launch and rollout: The first pilot was launched at Coimbatore on 18 February 2006, the second pilot at Delhi on 18 March 2006, and nationwide rollout across all offices of twenty Registrars of Companies was completed on 4 September 2006.

Core idea: The MCA21 application automates processes connected with proactive enforcement and compliance under the Companies Act, 1956 and Companies Act, 2013. It helps companies meet statutory obligations and helps regulators monitor compliance more efficiently.

MCA21 facilities available

- Incorporation of new companies.
- Filing of financial statements and annual returns.
- Registration of charges.
- Verification, modification and satisfaction of charges.
- Event-based statutory filings.
- Services relating to Director Identification Number (DIN).
- Inspection of documents and issue of certified copies.
- Approvals from Central Government, Regional Director and Registrar of Companies.
- Fees refund.
- Redressal of investors complaints.

Salient features of MCA21

- Online portal of MCA that makes company-related information accessible to stakeholders and the public.
- Convenient services on anywhere-anytime basis with speed and certainty.
- Easy and secure access to MCA services.
- Full automation of processes, improving global competitiveness.
- Multiple online payment options.
- SRN: Service Request Number, used to track service requests.

Stakeholders benefited by MCA21

Stakeholder	How MCA21 helps
Business	Register companies and file statutory documents quickly and easily.
Public	Access relevant records and get grievances redressed effectively.
Professionals	Chartered Accountants, Cost Accountants, Company Secretaries, Advocates and others can provide efficient services.
Financial institutions	Banks, NBFCs and others can register, modify and verify charges easily.
MCA officials	More time and data for monitoring and supervision; better service delivery.
MCA	More effective and transparent regulatory role.

2. Section 398 - Filing, Inspection and Registrar Functions in Electronic Form

Section 398 empowers the Central Government to make rules for requiring specified filings, communications, registers, inspections, payments and Registrar functions to be carried out electronically. It operates notwithstanding anything contrary in the Act and without prejudice to Section 6 of the Information Technology Act, 2000.

What can be required in electronic form?

Clause	Electronic requirement
Section 398(1)(a)	Applications, balance sheet, prospectus, return, declaration, memorandum, articles, particulars of charges or any other particulars/document required to be filed or delivered may be filed electronically and authenticated as prescribed.
Section 398(1)(b)	Documents, notices, communications or intimations required to be served or delivered may be served/delivered electronically and authenticated as prescribed.
Section 398(1)(c)	Applications, balance sheet, prospectus, return, register, memorandum, articles, charge particulars and other documents filed under the Act/rules may be maintained by Registrar electronically.
Section 398(1)(d)	Inspection of memorandum, articles, registers, index, balance sheet, return or other electronically maintained documents may be made through electronic form.
Section 398(1)(e)	Fees, charges or other sums payable under the Act/rules may be paid electronically.
Section 398(1)(f)	Registrar may electronically register change of registered office, alteration of memorandum/articles, issue certificate of incorporation, register documents, issue certificates, record notices, receive communications and discharge statutory functions.

Important limitation under Section 398

• Rules under Section 398 do not relate to imposition of fines or other pecuniary penalties, demand/payment of fees, contravention of provisions of the Act, or punishment for such contravention.

• The Central Government may frame a scheme by notification to carry out Section 398(1) through electronic form.

3. Rule 7 - Manner and Conditions of Filing

Rule 7 of the Companies (Registration Offices and Fees) Rules, 2014 is the operational rule for how documents are filed, delivered or served electronically.

Format and portal requirement

- Every application, financial statement, prospectus, return, declaration, memorandum, articles, charge particulars, notice, communication or intimation must be filed/delivered/served in computer-readable electronic form in PDF or such other specified format.
- Filing must be made through the portal maintained by the Central Government on its website or any other website notified by the Central Government.

Non-judicial stamp paper rule

- If documents are required to be filed on non-judicial stamp paper, the company must submit them physically in addition to electronic submission.
- Proof of physical delivery must be scanned and attached to the e-form.
- If stamp duty is paid electronically through the Central Government portal/notified website, physical submission of such documents is not required in addition to electronic submission.
- If a document is not covered for stamp duty payment through the Central Government portal and stamp duty payable in the relevant State is Rs. 100 or less, the company may scan the stamped document and file it electronically for evidencing by the Registrar. Separate physical submission is not required except for compounding of offences, adjudication of penalties, or applications to the Central Government or Regional Director.

Retention of original stamped documents

Document category	Retention period
Documents relating to incorporation and matters incidental thereto	Permanently.
Changes in any clauses of Memorandum and Articles of Association	Permanently.
Other cases	Minimum 8 years from the date of filing.
Production requirement	Original documents must be produced for inspection/verification whenever required by competent authority.

No vague signatures rule

Any physical/electronic correspondence or document must contain the name, designation, address, membership number or DIN, as the case may be, of the person signing it. Mere signature with the words “authorised signatory” is not acceptable.

Defaulting companies - event-based filing lock

No request for recording event-based information or changes shall be accepted by the Registrar from defaulting companies unless they file updated Balance Sheet, Profit and Loss Account and Annual Return. The chapter specifies these exceptions:

- Filing of order of Court or other authorities.
- Balance Sheet and Profit and Loss Account.
- Compounding application.
- Form for transfer of money to Investor Education and Protection Fund.
- Application for removal of Auditor.
- GNL-1 for making company active.

4. Rule 8 - Authentication of Documents

Rule 8 contains the authenticity and responsibility rules for electronic filing. This is a high-frequency MCQ area because a wrong signer, missing DSC or false e-form can invalidate filing or trigger liability.

Rule point	Exact requirement / consequence
Electronic authentication	An electronic form shall be authenticated by authorised signatories using digital signature.
Change in directors/secretaries	Forms relating to appointment of such directors or secretaries must be filed by a continuing director or the secretary of the company.
Responsibility	Authorised signatory and professional certifying the e-form are responsible for correctness of contents and enclosures.
Digital Signature Certificate	Every person authorised for authentication must obtain a DSC from Certifying Authority. The certificate must be Class II or Class III under the Information Technology Act, 2000.
Company e-form authentication	E-forms required under the Act/rules shall be authenticated on behalf of the company by Managing Director, Director, Secretary or other KMP.
Scanned documents	Scanned image must be of original signed documents relevant to the e-form and must not be blank without actual signature.
Attachments	Signer and certifying professional are solely responsible for ensuring that all required attachments are attached completely and legibly.
Representation authority	Document/form/application may contain a POA issued to Advocate, CA, Cost Accountant, CS in whole-time practice or another person supported by Board resolution. If not, a Director/KMP can represent.
False/misleading/omission	If filing contains false or misleading information or omits material fact requiring action under sections 448 or 449, the person is liable under sections 448 and 449.
Wrong/false certification	Without prejudice to other liability, DSC may be deactivated by the Central Government until final decision if certification contains wrong, false or misleading information, omission of material fact or defective attachments.
Pre-certification exceptions	Specific e-forms filed by companies other than OPCs and small companies require pre-certification.

5. Pre-Certification of e-Forms - Exact List

The following e-forms filed by companies other than OPCs and small companies are specifically listed for pre-certification by a Chartered Accountant, Company Secretary or Cost Accountant in whole-time practice:

- INC-21, INC-22, INC-28, PAS-3, SH-7, CHG-1, CHG-4, CHG-9, MGT-14, DIR-6, DIR-12, MR-1, MR-2, MSC-1, MSC-3, MSC-4, GNL-3, ADT-1, NDH-1, NDH-2 and NDH-3.

Form	Pre-certification / attestation rule
GNL-1	Optional pre-certification by CA/CS/Cost Accountant in whole-time practice.
DPT-3	Certification by auditors of the company.
MGT-10	Certification by a Company Secretary in whole-time practice.
AOC-4	Certification by CA/CS/Cost Accountant in whole-time practice.
DIR-3	Attestation of photograph, identity proof and proof of residence by CA/CS/Cost Accountant in whole-time practice.

6. e-Forms, e-Filing Process and System Requirements

Before MCA21, filings were mostly manual using prescribed physical paper forms. Under e-governance, physical forms were re-engineered into e-forms, generally designed in PDF format with pre-fill and pre-scrutiny features.

Pre-fill, pre-scrutiny and electronic address

- Pre-fill captures required fields from the MCA electronic registry database, reducing repetitive data entry.
- Pre-scrutiny is an electronic check to verify if the form is complete in all respects, limited to checks that the computerised system can perform.
- Companies may interact through MCA online portal or valid e-mail IDs of their own/authorised representatives.

System requirements stated in the material

Requirement	Exact item
Operating system	Windows 2000 or later version.

Internet	Internet connection to access MCA website.
Browsers	Internet Explorer Version 10 or above; Google Chrome 49 or above; Mozilla Firefox 45 or above.
PDF reader	Adobe Reader version 11 or later.
Java	Java Runtime Environment - Java version 8 Update 92 suggested.
Scanner	For scanning attachments.
Printer	For bank challan/service fee payment receipt.
Browser setting	Pop-ups from MCA21 portal must be enabled.

Process involved in e-Filing

1. One-time registration on MCA21 portal for personalised login ID; this creates security and enables personalised information.
2. Register DSC if the user intends to sign e-forms as authorised signatory. DSC registration must be repeated whenever a new DSC is procured or renewed.
3. Download the relevant e-form and instruction kit. Forms are freely downloadable in PDF format. It is not necessary to download every time, but the latest version must be used.
4. Complete the e-form online or offline. Online filling requires active internet connection; offline filling can be done without staying connected.
5. Use pre-fill where applicable; run automated pre-scrutiny to ensure completeness.
6. Attach supporting documents in PDF format and keep attachment size minimal wherever possible.
7. Sign with DSC. If there are multiple signatories, the form may be sent to others for digital signature. After signing, contents must not be changed.
8. Submit the form through MCA21 portal functionality. Sending by ordinary e-mail is not e-filing.
9. If defective, the MCA21 system rejects/returns the e-form with defect details. Defects can arise from wrong data, missing DSC or invalid DSC.
10. If correct, proceed to payment. After payment, e-filing is completed and the filing moves to the concerned RoC/back office.
11. Track filing using challan number or SRN printed on challan/computer-generated receipt.

Payment modes

- Credit Card/Debit Card.
- Internet Banking.
- NEFT.
- Physical Challan at bank counter.
- Pay Later.

Critical exam trap
• Sending an e-form by email does not amount to e-filing. It must be submitted through the MCA21 portal using the specialised functionality provided there.
• If contents of an e-form are altered after digital signature, the document becomes invalid and will be rejected during e-filing.

7. XBRL - Extensible Business Reporting Language

XBRL means Extensible Business Reporting Language. Under Rule 2(1)(d) of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015, it is a standardised language for communication in electronic form to express, report or file financial information by companies under the Companies Act, 2013.

XBRL objectives and benefits

- Economical, faster, reliable and accurate handling of data.
- Improves analysis, information quality and decision-making.
- Reduces manual comparison, assembly and re-entry of data.
- Flexible enough to support different reporting requirements across countries and industries.
- Improves comparability by identifying genuinely comparable data and distinguishing non-comparable information.
- Increases usability of financial statement information.
- Supports automated data collection from different divisions/accounting systems.

How XBRL works

XBRL makes data readable using two core documents: taxonomy and instance document. A taxonomy is an electronic dictionary for reporting business data as approved by the Central Government. Companies map their reports to the prescribed taxonomy and generate a valid XBRL instance document. Mapping means matching company-reported concepts with taxonomy elements and adding unit of measurement, period, scale and other attributes.

Companies required to file AOC-4 XBRL

Class of company	Exact threshold / rule
Listed companies	Companies listed with stock exchanges in India and their Indian subsidiaries.
Paid-up capital threshold	Companies having paid-up capital of Rs. 5 crore or above.
Turnover threshold	Companies having turnover of Rs. 100 crore or above.
Ind AS companies	All companies required to prepare financial statements in accordance with Companies (Indian Accounting Standards) Rules, 2015.
Continuation rule	Once a company has filed its financial statements in XBRL format, it must continue filing financial statements and other documents in XBRL format in succeeding years even if it no longer falls within the above classes.

Taxonomy to be used

- Companies preparing financial statements under the Companies (Accounting Standards) Rules, 2006 shall use the taxonomy in Annexure-II.
- Companies preparing financial statements under Companies (Indian Accounting Standards) Rules, 2015 shall use the taxonomy in Annexure-II A.

Companies exempt from XBRL filing under Rule 3(1) second proviso

- Non-banking financial companies.
- Housing Finance Companies.
- Companies engaged in the business of banking.
- Companies belonging to the insurance sector.

XBRL analytics and fraud detection

The chapter explains that financial statements, directors report and auditor report can be converted into XBRL/XML, placed into database and used for analytics. This allows analysis of related party transactions, money trail, CSR compliance, deposits, unpaid dividend, share application money, secured loan/charge status, directors eligibility, auditors qualifications and peer-wise/year-wise comparisons.

Case example: A listed X Company can use public domain XML files of comparable companies on the MCA portal to analyse profitability of similar products and validate arm's length pricing of related party transactions. This reduces the risk of fraudulent or unfair related party pricing.

8. Important e-Forms - Exam-Focused List

Do not memorise every form equally. The following list is arranged by practical area so that MCQs can be solved by association.

Area	Important forms
General/Other	CRL-1: number of layers of subsidiaries; GNL-3: persons/KMP specified for officer-in-default purposes under Section 2(60).
Approval - Headquarters	CRA-2: intimation of appointment of cost auditor; CG-1: application/documents with Central Government.
Approval - Regional Director	ADT-2: removal of auditor before term expiry; ADJ: appeal against order of adjudicating officer; RD GNL-5: addendum for defects/incompleteness; RD-1: applications to RD; INC-18: Section 8 conversion; INC-23: shifting registered office from one State to another or ROC jurisdiction change within same State; CHG-8: extension/rectification for charge satisfaction/creation/modification; NDH-2: extension of time; INC-24: CG approval for change of name.
Approval - ROC	STK-2: removal of company name; GNL-1: applications to ROC; FTE: fast track exit; MSC-1: dormant status; MSC-4: active status; INC-12: Section 8 licence to existing company; INC-6: OPC conversion.
Change services	INC-3: OPC nominee consent; INC-4: change in OPC member/nominee; INC-22: registered office change; INC-27: conversion of public/private/unlimited company; SH-7: alteration of share capital; FC-2: foreign company alteration; FC-3: foreign company annual accounts.
DIN related	DIR-3: DIN application before appointment in existing company; DIR-5: cancellation/surrender/deactivation of

	DIN; DIR-6: change in director particulars; DIR-9: company report to ROC for director disqualification under Section 164(2); DIR-3 KYC/DIR-3 KYC WEB: KYC; DIR-11: director resignation; DIR-3C: intimation of DIN by company; DIR-12: appointment/change/resignation of directors and KMP; DIR-10: removal of disqualification.
Charge forms	CHG-1: creation/modification of charge other than debenture charge; CHG-4: satisfaction of charge; CHG-6: appointment/cessation of receiver/manager; CHG-9: debenture charge creation/modification/rectification.
Incorporation	CSR-1: CSR entities registration; INC-22A: ACTIVE; SPICe+: incorporation with mandatory PAN/TAN; INC-33: e-MOA; INC-34: e-AOA; URC-1: company registration under Section 366; FC-1: information by foreign company; AGILE-PRO-S: GSTIN, ESIC, EPFO, professional tax Maharashtra, bank account and Shops & Establishment registration; RUN: change of name.
Compliance	BEN-2: Section 90 declaration return; MSME I: half-yearly outstanding payments to Micro/Small Enterprise; CRA-4: cost audit report; ADT-1: auditor appointment; ADT-3: auditor resignation; MGT-6: Section 89 declaration return; DPT-3: return of deposits; PAS-3: return of allotment; SH-8/SH-9/SH-11: buy-back letter of offer, solvency declaration and return; GNL-2: document submission; MGT-14: resolutions and agreements; FC-4: foreign company annual return; MSC-3: dormant company return; NDH-1, NDH-3, NDH-4: Nidhi compliances; PAS-6: half-yearly reconciliation of share capital audit report.
Managerial personnel	MR-2: CG approval for appointment/reappointment/remuneration or excess/overpayment waiver where Schedule V Part I not complied with; MR-1: return of appointment of MD/WTD/Manager.
Informational/Investor/Annual filing	MGT-3: foreign register location; MGT-15: AGM report; CFI(CSR): reply to CSR call for information; INC-20: revocation/surrender of Section 8 licence; INC-20A: commencement of business; INC-28: court/authority order; AOC-5: books of account address; ADT-4: auditor fraud report; GNL-4: addendum; ICP: investor complaint; SCP: serious complaint; AOC-4/AOC-4 CFS/AOC-4 XBRL/AOC-4 NBFC Ind AS/AOC-4 CFS NBFC Ind AS; MGT-7/MGT-7A; CSR-2; Refund form.

9. Section 400, 401 and 402

Section 400 - Electronic form may replace or supplement physical form

The Central Government may provide in rules under Sections 398 and 399 that electronic form for specified purposes shall be exclusive, or in the alternative, or in addition to physical form. Exam point: electronic mode is not always merely optional; it may be the only valid mode where rules make it exclusive.

Section 401 - Value-added services

Central Government may provide value-added services through electronic form and levy fee for such services as may be prescribed.

Section 402 - Information Technology Act, 2000 applies

All provisions of the Information Technology Act, 2000 relating to electronic records, including manner and format of filing electronic records, apply to electronic records under Section 398 so far as they are not inconsistent with the Companies Act, 2013.

10. Section 403 - Fee for Filing etc.

Section 403 is the filing fee, additional fee and default consequence provision. It does not remove penalty/punishment under the relevant substantive section; it only permits filing after delay on payment of additional fee in specified cases.

Section 403 core rules

- Every document, fact or information required/authorised to be filed, registered or recorded must be filed within the time specified in the relevant provision on payment of prescribed fee.
- For Section 92 annual return and Section 137 financial statements: delayed filing is allowed after expiry of the period on payment of additional fee, which shall not be less than Rs. 100 per day.
- For cases other than Sections 92/137: delayed filing may be allowed on payment of prescribed additional fee.
- If default occurs on two or more occasions for prescribed documents/facts/information, filing may require higher additional fee.
- Payment of fee/additional fee does not remove other legal action, penalty or punishment for the default.
- If company defaults before expiry of prescribed filing period, company and officers in default remain liable for penalty or punishment under the Act, in addition to fee/additional fee.

Delay fee table - forms other than increase in nominal share capital, Section 92/137 forms and charge forms

Delay period	Additional fee	Higher additional fee in certain cases
Up to 15 days (Sections 139 and 157)	1 time normal fees	Not applicable.
More than 15 days and up to 30 days (Sections 139 and 157) and up to 30 days in remaining forms	2 times normal filing fees	3 times normal filing fees.
More than 30 days and up to 60 days	4 times normal filing fees	6 times normal filing fees.
More than 60 days and up to 90 days	6 times normal filing fees	9 times normal filing fees.
More than 90 days and up to 180 days	10 times normal filing fees	15 times normal filing fees.
Beyond 180 days	12 times normal filing fees	18 times normal filing fees.

- Higher additional fee applies if there is delay in filing e-form INC-22 or PAS-3 on two or more occasions within 365 days from the date of filing of the last such belated e-form for which additional/higher additional fee was payable.
- Where higher additional fee is payable, additional fee is not charged.
- INC-22 or PAS-3 filed before commencement of Companies (Registration Offices and Fees) Amendment Rules, 2022 is not counted for determining higher additional fee.

Delay fee for increase in authorised capital

Delay	Additional fee
Delay up to 6 months	2.5% per month on the fees payable under relevant table.
Delay beyond 6 months	3% per month on the fees payable under relevant table.
Also applies	Delay in filing application with Registrar under Section 233(11).

Delay fee for Section 92 and Section 137

Situation	Additional fee
Delay beyond period under Section 92(4)	Rs. 100 per day.
Delay beyond period under Section 137(1)	Rs. 100 per day.
Belated annual returns/financial statements due before 30 June 2018	Older slab fee applied up to 30 June 2018 plus Rs. 100 per day with effect from 1 July 2018.
Older slabs up to 30 June 2018	Up to 30 days: 2 times; >30 up to 60: 4 times; >60 up to 90: 6 times; >90 up to 180: 10 times; beyond 180: 12 times normal filing fees.

Fee for charge documents

Charge timing / delay	Fee
Charges created/modified before 2 November 2018 and filed within 300 days of creation or 6 months from 2 November 2018	Up to 30 days: 2 times normal fees; >30 to 60: 4 times; >60 to 90: 6 times; >90 to 180: 10 times; >180: 12 times normal fees.
Charges created/modified on or after 2 November 2018 - payable up to 31 July 2019	Up to 30 days: 2 times normal fees; >30 to 60: 4 times; >60 to 90: 6 times normal fees.
W.e.f. 1 August 2019 - small companies and OPCs - up to 30 days	3 times normal fees.
W.e.f. 1 August 2019 - other companies - up to 30 days	6 times normal fees.
W.e.f. 1 August 2019 - small companies and OPCs - more than 30 up to 90 days	3 times normal fees plus ad valorem fee of 0.025% of amount secured by charge, maximum Rs. 1 lakh.
W.e.f. 1 August 2019 - other companies - more than 30 up to 90 days	6 times normal fees plus ad valorem fee of 0.05% of amount secured by charge, maximum Rs. 5 lakh.

Selected fixed fees and important amounts

Item	Exact fee/amount
Reservation of name under Section 4(4)	Rs. 1,000.
Allotment of DIN under Section 153	Rs. 500.
Surrender of DIN under Rule 11(f)	Rs. 1,000.
Inspection under Section 399(1)(a)	Rs. 100.
Copy of certificate of incorporation under Section 399(1)(b)	Rs. 100.
Copy/extract of other documents including hard copy/computer	Rs. 25 per page.

readable media	
Registration of document under Section 385	Rs. 6,000 for each document.
Removal of name under Section 248(2)	Rs. 5,000.
DIR-3 KYC/DIR-3 KYC WEB till 30 September every financial year	No fee.
DIR-3 KYC/DIR-3 KYC WEB delayed case	Rs. 5,000.
ACTIVE form till 15 June 2019	No fee.
ACTIVE delayed case	Rs. 10,000.

Dormant company annual fee

Applicant	Other than OPC/small company	OPC and small company
Authorised share capital up to Rs. 25 lakh	Rs. 2,000	Rs. 1,000
More than Rs. 25 lakh and up to Rs. 50 lakh	Rs. 5,000	Rs. 2,500
More than Rs. 50 lakh and up to Rs. 5 crore	Rs. 10,000	Not specified in OPC/small column
More than Rs. 5 crore and up to Rs. 10 crore	Rs. 15,000	Not specified in OPC/small column
More than Rs. 10 crore	Rs. 20,000	Not specified in OPC/small column
Company limited by guarantee without share capital	Rs. 2,000	Not specified in OPC/small column

Payment instructions from fee rules

- Fee may be paid through Credit Card, Internet Banking, Remittance at Bank Counter or any other mode approved by Central Government.
- Accredited banks listed in the material: Punjab National Bank, State Bank of India, Indian Bank, ICICI Bank, HDFC Bank and Union Bank of India.
- If fee payable to Registrar is paid through bank drafts, it is not deemed paid unless and until the drafts are cashed and amount is credited.

11. Dedicated Penalties, Consequences and Red-Flag Section

Trigger/default	Consequence
Late filing under Section 403	Additional fee / higher additional fee as per exact slabs; other penalty/punishment under relevant section continues.
Delay in Section 92 annual return or Section 137 financial statements	Additional fee of Rs. 100 per day after statutory period.
Default in filing documents before expiry of period	Company and officers in default liable for penalty/punishment under the relevant provision in addition to fee/additional fee.
False/misleading information or omission of material fact in e-form	Liability under Sections 448 and 449.
Wrong/false/misleading certification or omission/attachment defect by certifier	DSC may be deactivated by Central Government until final decision; other liability remains.
Changing e-form after DSC signing	Document becomes invalid and is rejected during e-filing.
Sending e-form by e-mail	Not valid e-filing. Must be submitted through MCA21 portal.
Defaulting company attempting event-based changes	ROC will not accept event-based recording unless updated financial statements/annual return filed, subject to specified exceptions.
Failure to file DIR-3 KYC/DIR-3 KYC WEB by due date	Delayed fee Rs. 5,000.
Delayed ACTIVE filing	Delayed fee Rs. 10,000.

12. MCA21 Version 3.0

MCA21 Version 3.0 was announced through Press Release dated 5 February 2021. It is a technology-driven project meant to strengthen enforcement, promote ease of doing business, improve user experience and facilitate integration/data exchange among regulators. It uses micro-services architecture, scalability, advanced analytics and emerging technologies like AI and ML.

Component	Purpose
e-Scrutiny	Central Scrutiny Cell scrutinises certain Straight Through Process forms and flags companies for deeper scrutiny.
e-Adjudication	Digitises adjudication proceedings by RoC/RD; supports online hearings and end-to-end

	electronic adjudication.
e-Consultation	Automates public consultation on draft rules/amendments, uses structured digital comments and AI-driven sentiment analysis/consolidation.
Compliance Management System (CMS)	Identifies non-compliant companies/LLPs, issues e-notices and generates alerts for internal MCA users; supports rule-based compliance checks and enforcement drives.
MCA Lab	Corporate law experts evaluate CMS, e-consultation, enforcement modules etc. and suggest improvements on ongoing basis.
Other features	Cognitive chatbot helpdesk, mobile apps, interactive dashboards, enhanced UI/UX and APIs for data dissemination.

13. Ethics Case Studies Included in Chapter 10 - Exam-Oriented Digest

The ethics case studies in this chapter are not pure e-filing mechanics, but they show how electronic records, ROC/NFRA investigation, related party disclosures, XBRL analytics and compliance data can reveal misconduct. The following digest captures the issue, legal trigger and conclusion.

Case	Core issue	Exam conclusion
Case 1 - XP Ltd. / CA MP Iyer	Auditor failed to test arm's length basis for related party transactions where more than 50% sales were to a partnership firm connected to MD's spouse.	Engagement Partner failed to obtain sufficient appropriate audit evidence under SA 550 and is guilty of professional misconduct. CFO would be liable if Companies Act disclosures were not properly made; in the facts, disclosures existed in audit file and annual report.
Case 2 - Hamper Limited / Prime Focus group	Auditors failed to examine related party loans/advances and possible diversion of funds, including huge loans without interest/security/business rationale.	Auditors failed in professional judgement, did not question TCWG/management, ignored Sections 180/179/186 implications and had duty to report fraud under Section 143(12).
Case 3 - Ethics/compliance learning	Chapter uses audit failure facts to stress that professionals cannot rely on surface-level documents when the circumstances indicate fraud or non-compliance.	Auditor must maintain independence, obtain evidence, test disclosures and not merely accept management assertions.
Case 4 - dematerialisation/private company subsidiary issue	Default under Rule 9A(3)(a) of Companies (Prospectus and Allotment of Securities) Rules, 2014 in transfer of securities mode.	Where a private company is a subsidiary of a public company/deemed public company, Rule 9A compliance can apply; executive directors/company may be penalised for admitted default.

How to use ethics cases in MCQ/descriptive answers

- Always identify the professional duty: due diligence, sufficient information, disclosure, independence, and reporting of fraud.
- Link digital compliance data to detection: MCA filings, XBRL XML, public records, related party disclosures and registers.
- Do not ignore exact related provisions from earlier chapters: Section 188, Section 189, Section 186, Section 180, Section 143(12), Section 132(4), Rule 9A, Sections 448/449.

14. Relevant Practice Questions and Answers

ICAI Test Your Knowledge - MCQs

Question	Answer	Reason
The nomenclature MCA21 reflects what?	Option (c)	MCA is capable of fulfilling stakeholder aspirations in the 21st century.
Electronic form for specified purposes shall be?	Option (a)	Exclusive, or in the alternative, or in addition to physical form.
SRN stands for?	Option (d)	Service Request Number.
Apoorva Medicines Ltd. required to file financial statements through XBRL?	Option (a)	If paid-up capital is Rs. 5 crore and above. Turnover option says Rs. 75 crore, but actual threshold is Rs. 100 crore, so only (a) is correct.
XBRL stands for?	Option (b)	eXtensible Business Reporting Language.

Descriptive Question 1 - Salient features of MCA21

- Online portal of MCA.
- Convenient anywhere-anytime service.
- Easy and secure access.
- Full automation.
- Multiple payment options.
- SRN for tracking service request.

Descriptive Question 2(i) - ADT-3 filed by e-mail

Answer: Submission of e-form ADT-3 through ordinary e-mail does not constitute valid e-filing. Valid e-filing requires submission at MCA21 portal using the specialised functionality provided there. Therefore, Raashi must avoid ordinary e-mail submission and file through the proper portal route.

Descriptive Question 2(ii) - XBRL exemptions

- Non-banking financial companies.
- Housing Finance Companies.
- Companies engaged in banking business.
- Insurance sector companies.

Descriptive Question 3 - Process involved in e-Filing

12. One-time user registration on MCA21 portal.
13. Registration of DSC.
14. Download e-form and instruction kit.
15. Complete e-form online/offline.
16. Use pre-fill and pre-scrutiny.
17. Attach supporting documents in PDF.
18. Digitally sign using DSC.
19. Submit through MCA21 portal, not by e-mail.
20. If valid, make payment through available mode.
21. Track by SRN/challan number after filing is completed.

15. Last-Day Revision Sheets

Exact thresholds and limits

Point	Exact number
XBRL paid-up capital threshold	Rs. 5 crore or above.
XBRL turnover threshold	Rs. 100 crore or above.
Stamp duty electronic-only filing exception	Stamp duty Rs. 100 or less, subject to exceptions.
Retention of incorporation/MOA/AOA documents	Permanent.
Retention of other original stamped documents	Minimum 8 years from filing.
DIR-3 KYC delayed fee	Rs. 5,000.
ACTIVE delayed fee	Rs. 10,000.
Section 92/137 delayed filing additional fee	Rs. 100 per day.
Higher additional fee look-back for INC-22/PAS-3	Two or more occasions within 365 days from last belated filing.
Charge ad valorem maximum for small/OPC >30 up to 90 days	0.025% of amount secured, max Rs. 1 lakh.
Charge ad valorem maximum for other companies >30 up to 90 days	0.05% of amount secured, max Rs. 5 lakh.
Reservation of name fee	Rs. 1,000.
DIN allotment fee	Rs. 500.
DIN surrender fee	Rs. 1,000.
Section 399 inspection fee	Rs. 100.
Copy of certificate of incorporation	Rs. 100.
Copy/extract of other documents	Rs. 25 per page.
Section 385 document registration	Rs. 6,000 per document.

Section 248(2) removal of name	Rs. 5,000.

Exam traps

- Do not confuse MCA21 with 21 e-forms; it means MCA serving 21st century stakeholder expectations.
- SRN is Service Request Number, not Service Reporting Number.
- XBRL turnover threshold is Rs. 100 crore, not Rs. 75 crore.
- Listed companies and their Indian subsidiaries are covered for XBRL.
- Once XBRL, always XBRL for succeeding years, even if thresholds are not met later.
- NBFCs, Housing Finance Companies, banking and insurance companies are exempt from XBRL filing under the stated rules.
- Electronic form may be exclusive; physical filing cannot always be treated as sufficient.
- Sending e-form through e-mail is not e-filing.
- DSC-signing is not a mere formality. Post-signature alteration invalidates the form.
- Payment of additional fee does not cure the statutory default for penalty/punishment purposes.

Memory code

MCA21 features: O C E F M S = Online, Convenient, Easy and secure, Full automation, Multiple payment options, SRN.

XBRL applicability: L-P-T-I-C = Listed Indian stock exchange + Indian subsidiaries, Paid-up capital Rs. 5 crore, Turnover Rs. 100 crore, Ind AS companies, Continue once filed.

XBRL exemptions: B-N-H-I = Banking, NBFC, Housing Finance, Insurance.

16. Source Integration Note

- ICAI Chapter 10 was used for all statutory provisions, rules, exact thresholds, forms, fees, MCA21 V3.0 and ethics case studies.
- SPOM Important Points PDF was used to reinforce SRN and XBRL threshold quick points.
- Case Scenario Booklet search did not reveal a dedicated e-filing case scenario for Chapter 10; therefore, Chapter 10 ICAI Test Your Knowledge and in-chapter case studies have been integrated for practice.
- Hemant notes were used only as supplementary revision support; content has been kept aligned to uploaded ICAI material.

THE FOREIGN CONTRIBUTION (REGULATION) ACT, 2010

Comprehensive Chapter 1-Style Notes with Mega Case Study, Process Flow, Exact Limits, Penalties and TYK Integration

How to use these notes

- First read the Master Mega Case Study. It deliberately covers every major provision of the chapter in a story format.
- Then read the section-wise notes. Each section refers back to the same story so the provision is remembered by facts, not by rote.
- For exam revision, use the process flow, penalties chart, forms/deadlines chart and TYK digest at the end.
- Exact limits and time periods are written wherever provided in the uploaded study material; vague terms such as prescribed limit are avoided.

Table of Contents - Study Map

- 1. Master Mega Case Study covering the full FCRA chapter
- 2. FCRA Process Flow - receipt, registration, utilisation, reporting and contravention process
- 3. Section-wise detailed notes: Sections 1 to 22, 28 to 32 and 33 to 54, with note on Sections 23 to 27
- 4. Exact limits, thresholds, forms and deadlines
- 5. Penalties, offences, appeal, revision and compounding
- 6. Test Your Knowledge and integrated case questions with answers
- 7. Last-day revision charts and examiner traps

1. Master Mega Case Study - The One Story That Covers the Whole FCRA Chapter

Characters and background

Seva Jyoti Foundation is a Section 8 company in India with cultural, educational and social objects. It runs a village school, a mobile health van, skill-development workshops and a research wing. Its promoters are Ms. Kavya, Mr. Dev and Mr. Arjun. Mr. Arjun is also a government-nominated director in a Government-controlled corporation. Ms. Kavya has a cousin in Canada, a donor in Singapore, and an Indian friend living in Dubai who still holds an Indian passport. The Foundation wants to receive funds, articles, securities and foreign hospitality from various overseas persons.

Mega Case Part A - First question: is FCRA even applicable?

The Foundation asks whether FCRA applies only to Indian entities inside India. The answer starts from Section 1. FCRA extends to the whole of India. It also applies to citizens of India outside India and to associate branches or subsidiaries outside India of companies or bodies corporate registered or incorporated in India. Therefore, if Seva Jyoti sets up a branch in Nepal or Singapore, that overseas branch is still covered because it is an associate branch/subsidiary outside India of an Indian company. A foreigner who is outside India is not covered merely by FCRA. An Indian passport holder outside India is treated as local source for FCRA purposes, while a person of Indian origin holding a foreign passport is treated as a foreign source.

Mega Case Part B - Identifying foreign source and foreign contribution

The Singapore donor, Mala Company LLC, proposes to donate money. A US citizen proposes to gift iPhones to the school students. The Canadian cousin proposes to remit Rs. 12 lakh to Ms. Kavya personally. A World Bank funded agency also proposes a grant. Before accepting anything, the Foundation must classify the contributor and the receipt under Section 2. A foreign source includes a foreign Government, foreign Government agency, international agency other than specified exempted agencies such as UN, World Bank and IMF, foreign company, foreign corporation, multinational corporation, certain Indian companies with more than one-half foreign shareholding unless the holding is within FEMA foreign investment limits, foreign trade union, foreign trust/foundation, foreign society/club/association and foreign citizen. Foreign contribution means donation, delivery or transfer by a foreign source of article, currency or security.

In the same case, an iPhone gifted by a foreign citizen for personal use is not foreign contribution only if its market value in India on the date of gift does not exceed Rs. 1,00,000. If its value is Rs. 1,10,000, it is not covered by the personal-gift exception. Any currency, whether Indian

rupees or foreign currency, received from a foreign source is foreign contribution. Interest earned on foreign contribution deposited in the bank is also foreign contribution. However, normal fee or commercial consideration received from a foreign client for goods or services in the ordinary course of business is excluded from foreign contribution.

Mega Case Part C - Who cannot accept foreign contribution at all?

Mr. Arjun, being connected with a Government-controlled corporation, cannot accept foreign contribution if he falls within the prohibited class. Section 3 prohibits acceptance of foreign contribution by a candidate for election; correspondent, columnist, cartoonist, editor, owner, printer or publisher of a registered newspaper; public servant, Judge, Government servant or employee of any corporation or other body controlled or owned by Government; member of any Legislature; political party or its office-bearer; organisation of political nature; association/company engaged in production or broadcast of audio news, audio-visual news or current affairs; and the correspondent, columnist, cartoonist, editor or owner of such association/company.

Suppose Hello FM, a registered association, wants foreign funds to establish an audio news broadcast station. It cannot accept foreign contribution because news/current affairs broadcasting entities are specifically prohibited. Suppose Mr. Raja, an office-bearer of a political party, receives Rs. 9 lakh from his sister abroad. Section 4 permits receipt from relative even by persons otherwise covered under Section 3, and intimation is required only if foreign contribution from relatives exceeds Rs. 10 lakh in a financial year. Since it is Rs. 9 lakh, no intimation is required.

Mega Case Part D - Exceptions under Section 4 and why commercial receipts are different

Seva Jyoti sells research reports to a foreign university. This is a commercial fee for services in the ordinary course of business. It is excluded from foreign contribution. Ms. Kavya receives a scholarship from a foreign university; scholarship/stipend/payment of like nature is saved by Section 4. Mr. Dev receives salary from a foreign company for services rendered; salary, wages or remuneration due from a foreign source is also covered by exception. A member of an Indian delegation receives a gift abroad in accordance with Central Government rules; that too falls within Section 4. The case study should be remembered this way: Section 3 is the prohibition gate, but Section 4 opens specific safe windows such as salary, ordinary business, agent of foreign source dealing with Government, delegation gift, relative, official-channel remittance and scholarship/stipend.

Mega Case Part E - Organisation of political nature and foreign hospitality

Seva Jyoti starts campaigns that closely resemble the programme of a political party. The Central Government may, having regard to its activities, ideology, programme or association with the activities of any political party, specify it as an organisation of political nature under Section 5. Once specified, Section 3 restrictions become relevant.

Separately, Mr. Arjun, being a Government-related person, is invited to Germany by a foreign foundation, which offers travel, stay and medical support. Section 6 governs foreign hospitality. Members of Legislature, office-bearers of political parties, Judges, Government servants and employees of corporations or bodies owned/controlled by Government require prior permission of Central Government before accepting foreign hospitality while visiting abroad. However, if sudden illness requires emergent medical aid abroad, prior permission is not required. If the value of such emergent medical aid is up to Rs. 1,00,000 or equivalent, no intimation is required; if it exceeds that, intimation must be given within one month with details.

Mega Case Part F - Transfer ban, purpose restriction and administrative expense cap

After getting a foreign grant, Seva Jyoti wants to transfer a part of it to another NGO that has FCRA registration. Post-2020 amendment, Section 7 imposes a blanket prohibition: a person registered or having prior permission and receiving foreign contribution shall not transfer such foreign contribution to any other person. It does not matter that the other person is also registered. This is an exam trap.

The Foundation can use foreign contribution only for the purpose for which it was received. It cannot use foreign contribution or income arising from it for speculative business. Speculative activity includes investment having risk of appreciation/depreciation linked to market forces, including mutual funds or shares, and high-return schemes like chits or land not directly linked to declared objects. Debt-based secure investment is not treated as speculative investment. Administrative expenses cannot exceed 20% of foreign contribution received in a financial year unless prior approval of Central Government is obtained. Unspent allowable administrative expenses may be carried forward to the immediately succeeding financial year with reasons in Form FC-4.

Mega Case Part G - Registration vs prior permission

Seva Jyoti has existed for only one year, so it does not yet satisfy the general registration track. Under the study material, registration is normally granted to persons existing for three years, having audited financials of past three years and having spent at least Rs. 15 lakh, excluding administrative expenses. A new organisation may instead apply for prior permission for a specific amount, from a specific donor, for a specific project. Registration application is in Form FC-3A. Prior permission application is in Form FC-3B. Both require affidavits of office bearers/key functionaries/members in Proforma AA. The applicant must have an FCRA Account. A second application for registration or prior permission cannot be preferred within six months after submitting an earlier application for the same project or for registration.

Central Government ordinarily grants registration/prior permission within 90 days if conditions are satisfied. Registration is valid for five years. Prior permission is valid for the specific purpose or specific amount. For prior permission where foreign contribution value exceeds Rs. 1 crore on final disposal of the application, Central Government may permit receipt in instalments. Second and subsequent instalment can be released after proof of utilisation of 75% of the foreign contribution received in the previous instalment and after field inquiry.

Mega Case Part H - Aadhaar, suspension, cancellation, surrender and renewal

When Seva Jyoti applies, Section 12A allows the Central Government to require Aadhaar numbers of office bearers/directors/key functionaries who are Indian citizens; for foreigners, passport or OCI card is required. Later, if the Government considers cancellation, it can suspend the certificate for 180 days and a further period not exceeding 180 days. During suspension, the entity cannot receive foreign contribution unless permitted. It can utilise up to 25% of unutilised amount with prior approval for declared aims and objects; the remaining 75% can be utilised only after revocation of suspension.

Cancellation can happen if the holder made incorrect/false statements, violated certificate terms, violated the Act/rules/orders, became defunct or did not undertake reasonable activity for two consecutive years, or if cancellation is necessary in public interest. A reasonable opportunity of being heard is required. After cancellation, the person is not eligible for registration or prior permission for three years. Voluntary surrender is possible through Form FC-7, and the validity is deemed to expire on acceptance by Central Government. Renewal must be applied within six months before expiry in Form FC-3C, with fee of Rs. 5,000. Renewal is ordinarily decided within 90 days and, if granted, is for five years. If renewal is not applied for or fee is not paid before expiry, validity is deemed to cease; the person cannot receive or utilise foreign contribution until renewal/fresh registration.

Mega Case Part I - Bank accounts, reporting, audit and assets

All foreign contribution must first be received only in the designated FCRA Account at State Bank of India, New Delhi Main Branch. The Foundation may open another FCRA Account in a scheduled bank for keeping/utilising the foreign contribution received from the SBI FCRA Account. It may also open one or more utilisation accounts in scheduled banks to which funds may be transferred for utilisation. No local funds can be received/deposited in any such account. Banks must report receipt or utilisation of foreign contribution within 48 hours to Central Government whether or not the recipient is registered or has prior permission. Opening of utilisation accounts must be intimated in Form FC-6D within 45 days as per the TYK answer in the uploaded material.

The Foundation must file annual Form FC-4 within nine months of closure of the financial year with income and expenditure statement, receipt and payment account and balance sheet. Nil return is required even if no foreign contribution is received; if no foreign contribution is received or utilised, CA certificate and financial statements need not be enclosed. Accounting statements must be preserved for six years. A separate set of accounts and records must be maintained exclusively for foreign contribution. If there is failure to furnish intimation or irregular intimation or reasonable belief of contravention, Central Government may authorise audit of books. A candidate for election who received foreign contribution within 180 days immediately preceding nomination must intimate in Form FC-1 within 45 days from nomination.

Mega Case Part J - Contravention, seizure, confiscation, appeal, revision and penalties

Suppose Seva Jyoti receives foreign contribution without registration or prior permission, or uses funds for speculative investment, or transfers funds to another NGO. Central Government may prohibit payment, delivery, transfer or dealing with article/currency/security received in contravention. Confiscation of article/currency/security seized under the Act is dealt with under Sections 28 to 30. Court of Session can adjudge confiscation without limit; an officer not below Assistant Sessions Judge can adjudge confiscation up to Rs. 10 lakh. A reasonable opportunity of representation must be given before confiscation.

Appeal against confiscation order by Court of Session lies to the High Court; appeal against order of specified officer lies to Court of Session. Appeal must be filed within one month from communication, with possible further one-month extension. Appeals against orders regarding political nature, refusal of permission/registration or cancellation lie to the High Court within 60 days. Revision by Central Government can be suo motu or on application; suo motu revision is barred after one year; application for revision must be within one year from communication/knowledge, with fee Rs. 3,000. Offences carry imprisonment/fine ranging from six months to five years depending on the section, plus consequences such as five-year bar for repeat offender under Section 38.

2. FCRA End-to-End Process Flow - Exam Version

Stage	Question to ask	Relevant sections / rules	Exact answer for exam
1. Coverage	Is the person/branch covered by FCRA?	Section 1	Whole of India; citizens of India outside India; overseas associate branches/subsidiaries of Indian companies/bodies corporate. Not applicable to a foreigner while outside India.
2. Source test	Is donor a foreign source?	Section 2(1)(j)	Foreign Government/agency, foreign company/corporation, MNC, foreign citizen, foreign trust/foundation/society/club, certain foreign-held Indian companies unless FEMA-limit

			proviso applies, etc.
3. Receipt test	Is it foreign contribution?	Section 2(1)(h)	Donation/delivery/transfer by foreign source of article, currency or security; includes interest/income from foreign contribution. Excludes commercial fee/cost for goods/services in ordinary course.
4. Prohibited recipient test	Is recipient barred?	Section 3	Candidate, newspaper persons, public servant/Judge/Government servant/Government-controlled body employee, Legislature member, political party/office-bearer, political organisation, news/current affairs broadcaster, etc.
5. Exception test	Even if barred, is it saved?	Section 4	Salary, ordinary business, Government-agent transaction, delegation gift, relative, official channel remittance, scholarship/stipend. Relative intimation only if > Rs. 10 lakh in FY within 3 months in Form FC-1.
6. Permission mode	Registration or prior permission?	Sections 11-12	Registration: generally 3 years existence, 3 years audited accounts, Rs. 15 lakh spent excluding admin expenses. Prior permission: specific donor, amount and project.
7. Account gate	Where to receive funds?	Section 17	Only in designated FCRA Account at SBI New Delhi Main Branch first; then transfer to other FCRA/utilisation accounts. No local funds in such accounts.
8. Utilisation	How can funds be used?	Sections 7-8	No transfer to another person. Use only for purpose received. No speculative business. Admin expenses max 20% unless prior CG approval.
9. Reporting	What filings?	Sections 18-19, Rule 17	Annual Form FC-4 within 9 months of FY end; separate accounts; preserve accounting statements for 6 years; nil return also required.
10. Non-compliance	What happens on breach?	Sections 9-10, 13-15, 28-41	CG can prohibit, suspend, cancel, confiscate, prosecute, compound; penalties and bars apply.

3. Section-wise Detailed Notes

Section 1 - Extent, application and commencement

- FCRA applies to the whole of India.
- It applies to citizens of India outside India.
- It applies to associate branches/subsidiaries outside India of companies or bodies corporate registered/incorporated in India.
- It does not apply to a foreigner while outside India.
- Commencement date: 1 May 2011.
- Indian passport holder outside India remains local source; PIO/OCI/foreign passport holder is foreign source.

Section 2 - Important definitions

Term	Meaning / exam clarity
FCRA Account - Section 2(1)(f)	Account referred to in Section 17: designated FCRA receipt account at specified SBI New Delhi branch and permitted linked accounts.
Foreign company - Section 2(1)(g)	Company/association/body incorporated outside India; includes foreign company under Companies Act, subsidiary of foreign company, registered/principal place of business of foreign company, and MNC.
Foreign source - Section 2(1)(j)	Foreign Government/agency; international agency except UN, specialised agencies, World Bank, IMF or notified agencies; foreign company/corporation/MNC; foreign-held Indian company exceeding 50% unless FEMA-limit proviso applies; foreign trade union/trust/foundation/society/club; citizen of foreign country.
Foreign contribution - Section 2(1)(h)	Donation/delivery/transfer by foreign source of article, currency or security. Includes rupee receipt from foreign source and interest/income from foreign contribution.
Personal-use article exception	Article gifted for personal use is excluded only if market value in India on date of gift is not more than Rs. 1,00,000.
Commercial receipt exclusion	Fee/cost received from foreign source for goods/services in ordinary course of business, including foreign student fees, is excluded.
Person - Section 2(1)(m)	Individual, HUF, association, and Section 8 company (earlier section 25 company).
Foreign hospitality - Section 2(1)(i)	Non-casual offer by foreign source for travel to foreign country/territory or free boarding, lodging, transport or medical treatment.
Political party - Section 2(1)(n)	Association/body of Indian citizens registered or set up candidates for legislature election, including specified parties.
Relative - Section 2(1)(r)	Same meaning as Companies Act relative definition.

High-yield definition traps

- Foreign contribution can be in Indian rupees if the donor is a foreign source.
- Interest on foreign contribution is also foreign contribution.
- NRI with Indian passport is not foreign source; person of Indian origin with foreign passport is foreign source.
- 100% foreign-owned Indian company may not be foreign source if investment is within FEMA limits.
- Foreign commercial fee for services is not foreign contribution.

Sections 3 to 10 - Regulation of foreign contribution and foreign hospitality

Section 3 - Persons prohibited from accepting foreign contribution

- Candidate for election.
- Correspondent, columnist, cartoonist, editor, owner, printer or publisher of registered newspaper.
- Public servant, Judge, Government servant or employee of corporation/body controlled or owned by Government.
- Member of any Legislature.
- Political party or office-bearer thereof.
- Organisation of political nature specified by Central Government.
- Association/company engaged in production or broadcast of audio news, audio-visual news or current affairs through electronic mode or mass communication.
- Correspondent, columnist, cartoonist, editor or owner of such news/current affairs association/company.

Indirect acceptance is also prohibited: a person resident in India or citizen of India outside India cannot accept foreign contribution on behalf of a political party or prohibited person, and cannot deliver foreign-source currency to such persons if he knows or has reason to believe it will be so delivered.

Section 4 - Exceptions where Section 3 does not apply

- Salary, wages or remuneration due from foreign source or payment in ordinary course of business transacted in India by such foreign source.
- Payment in course of international trade/commerce or ordinary business transacted outside India.
- As agent of foreign source in transaction with Central or State Government.
- Gift/presentation as member of Indian delegation, if accepted as per Central Government rules.
- From relative. If foreign contribution from relatives exceeds Rs. 10 lakh or equivalent in a financial year, details must be furnished in Form FC-1 within 3 months from receipt.
- Remittance in ordinary course through official channel, post office or authorised person under FEMA.
- Scholarship, stipend or payment of like nature.

Section 5 - Organisation of political nature

Central Government may specify an organisation as being of political nature having regard to its activities, ideology, programme or association with activities of any political party. Once notified, FCRA restrictions apply as if it were an organisation of political nature under Section 3(1)(f). Rule 3 of the FCR Rules provides grounds/guidelines for such classification.

Section 6 - Foreign hospitality

Who requires prior CG permission before accepting foreign hospitality abroad?	Exception / intimation
Member of Legislature; office-bearer of political party; Judge; Government servant; employee of corporation/body owned or controlled by Government.	No prior permission needed for emergent medical aid due to sudden illness abroad. Intimation within 1 month is required with source, value, purpose and manner of utilisation, but no intimation if emergent medical aid value is up to Rs. 1,00,000 or equivalent. Application for prior permission generally in electronic form, ordinarily 2 weeks before onward journey, with invitation letter and administrative clearance where relevant.

Section 7 - Complete prohibition on transfer of foreign contribution

A person registered and granted certificate or having prior permission, and receiving foreign contribution, shall not transfer such foreign contribution to any other person. This is a complete bar post-amendment. The earlier regime allowed transfer to another registered/prior-permission person or with approval; that no longer applies in the material.

Section 8 - Utilisation and administrative expenses

- Foreign contribution must be used only for the purpose for which it was received.
- Foreign contribution and income arising from it cannot be used for speculative business.
- Speculative activities include market-linked risk investments such as mutual funds/shares and high-return schemes like chits or land not directly linked to declared aims/objects.

- Debt-based secure investment is not treated as speculative investment.
- Administrative expenses cannot exceed 20% of foreign contribution received in a financial year unless prior CG approval is obtained.
- Administrative expenses include executive/governing body remuneration/travel, management personnel cost, office consumables/utilities/repairs/stationery/printing/travel, accounting/administering funds, vehicle maintenance, report writing/filing, legal/professional charges, rent/repairs/utilities.
- Excluded from administrative expenses: salaries/remuneration of personnel engaged in training or field data in research/training association; direct welfare-object expenses such as doctors in hospital or teachers in school.
- Unspent allowable administrative expenses can be carried forward to immediately succeeding financial year with reasons in Form FC-4.

Section 9 - Central Government power to prohibit/regulate in certain cases

If Central Government is satisfied that acceptance of foreign contribution or foreign hospitality is likely to prejudicially affect sovereignty and integrity of India, public interest, freedom/fairness of election, friendly relations with foreign State, or harmony among religious, racial, social, linguistic or regional groups, castes or communities, it may prohibit acceptance, require prior permission, or require intimation even for persons not otherwise specified.

Section 10 - Prohibitory order for currency/article/security received in contravention

If Central Government is satisfied after inquiry that any person has article, currency or security accepted in contravention of FCRA, it may by written order prohibit payment, delivery, transfer or dealing with it. Rule 8 provides service methods: personal delivery/tender, registered/speed post, or affixing at premises with witnessed report if other methods fail.

Sections 11 to 16 - Registration, prior permission, suspension, cancellation, surrender and renewal

Section 11 - Two modes of accepting foreign contribution

Mode	Who uses it?	Exact requirements / effect
Registration - Section 11(1)	Person having definite cultural, economic, educational, religious or social programme.	Registration is for continuing receipt. Study material states registration is granted to persons existing for 3 years, having audited financials of past 3 years, and spending at least Rs. 15 lakh excluding administrative expenses. Form FC-3A with affidavit in Proforma AA.
Prior permission - Section 11(2)	New/formative organisation not eligible for registration.	Specific amount from specific donor for specific purpose/project. Valid only for that specific purpose and source. Form FC-3B with affidavit in Proforma AA.
CG-notified prior permission	Persons/classes, areas, purposes or sources notified by CG.	Central Government may specify persons/classes, areas, purposes or sources requiring prior permission.
Account intimation	Persons opening utilisation accounts.	One or more utilisation accounts can be opened; intimation in Form FC-6D. TYK answer states online intimation within 45 days of opening such account.

Section 12 - Grant/refusal of registration or prior permission

- Application to Central Government in prescribed form and fee.
- Applicant must open FCRA Account under Section 17 and mention details in application.
- Central Government can reject application if not in prescribed form or lacking particulars.
- If conditions are satisfied, Central Government may ordinarily within 90 days grant registration/prior permission.
- If not granted within 90 days, reasons must be communicated.
- Refusal reasons must be recorded and furnished, except where disclosure is not required under RTI Act.
- Registration certificate is valid for 5 years from issue.
- Prior permission is valid for specific purpose or specific amount.
- No second application for registration/prior permission within 6 months after submitting application for same project or for registration.

Conditions under Section 12(4)

- Applicant must not be fictitious or benami.
- Must not have been prosecuted/convicted for conversion through inducement/force.
- Must not have been prosecuted/convicted for creating communal tension/disharmony.
- Must not have been found guilty of diversion or misutilisation of funds.
- Must not be engaged or likely to engage in sedition or violent methods.
- Must not be likely to use foreign contribution for personal gains or divert it for undesirable purposes.

- Must not have contravened FCRA.
- Must not be prohibited from accepting foreign contribution.
- Registration applicant must have undertaken reasonable activity in chosen field for benefit of society.
- Prior-permission applicant must have prepared reasonable project for benefit of society.
- Individual applicant must not be convicted and no prosecution should be pending.
- For non-individual, directors/office-bearers must not be convicted and no prosecution pending.
- Acceptance must not prejudicially affect sovereignty/integrity, security/strategic/scientific/economic interest, public interest, fair elections, friendly foreign relations or social harmony.
- Acceptance must not lead to incitement of offence or endanger life/physical safety of any person.

Rule 9A - Prior permission instalments when value exceeds Rs. 1 crore

If foreign contribution value on final disposal of prior permission application is over Rs. 1 crore, Central Government may permit receipt in instalments. Second/subsequent instalments are released after proof of utilisation of 75% of foreign contribution received in previous instalment and after field inquiry.

Section 12A - Aadhaar / identification document

Central Government may require Aadhaar number of office bearers, directors or key functionaries who are citizens of India for prior permission, prior approval, registration or renewal. For foreigners, copy of passport or OCI Card is required.

Section 13 - Suspension of certificate

Point	Rule
When?	While considering cancellation under Section 14 grounds, if Central Government considers suspension necessary.
Period	180 days, plus further period not exceeding 180 days.
Effect	No receipt of foreign contribution during suspension unless Central Government permits on terms. No utilisation without prior approval.
Utilisation during suspension	Up to 25% of unutilised amount may be spent with prior CG approval for declared aims/objects. Remaining 75% only after revocation of suspension.

Section 14 - Cancellation of certificate

- Incorrect or false statement in application for registration/renewal.
- Violation of terms and conditions of certificate or renewal.
- Violation of provisions of Act, rules or orders.
- Not engaged in reasonable activity in chosen field for benefit of society for two consecutive years or becoming defunct.
- Cancellation necessary in public interest.
- Reasonable opportunity of being heard is mandatory before cancellation.
- Cooling period: no registration or prior permission for 3 years from date of cancellation.

Section 14A - Surrender of certificate

A registered person may request surrender of certificate. Central Government must inquire and satisfy itself that no FCRA contravention exists and that management of foreign contribution and assets created out of it has vested in the prescribed authority under Section 15. Application is in Form FC-7. Validity of surrendered certificate is deemed to expire on acceptance by Central Government.

Section 15 - Management after cancellation or surrender

Foreign contribution and assets created out of foreign contribution of a person whose certificate is cancelled or surrendered vest in the concerned banking authority/prescribed authority until Central Government issues further directions. The authority may manage activities in public interest and utilise foreign contribution or dispose assets if funds are inadequate. If the person is subsequently registered, the authority returns the foreign contribution and assets.

Section 16 - Renewal of certificate

- Apply within six months before expiry.
- Application in Form FC-3C with Proforma AA affidavit.
- Renewal fee: Rs. 5,000 through payment gateway.
- Every renewal applicant must open FCRA Account and mention details.
- If no application or no requisite fee before expiry, validity is deemed to cease from expiry of five-year period.
- No receipt or utilisation of foreign contribution until renewal.
- Central Government ordinarily renews within 90 days and renewal is for 5 years.
- If renewal is refused or not granted within 90 days, reasons are communicated.

- If validity ceased, fresh request may be made under Rule 9. Delayed application may be accepted with sufficient written grounds and late fee of Rs. 5,000, but not later than one year after expiry.

Sections 17 to 22 - Accounts, intimation, audit and disposal of assets

Section 17 - Foreign contribution through scheduled bank

- Foreign contribution must be received only in the designated FCRA Account at specified SBI New Delhi branch.
- Another FCRA Account may be opened in any scheduled bank for keeping/utilising foreign contribution received from SBI FCRA Account.
- One or more utilisation accounts may be opened in scheduled banks for utilisation after transfer from FCRA Account.
- No funds other than foreign contribution shall be received/deposited in these accounts.
- Bank reporting: bank must report to Central Government within 48 hours any transaction of receipt or utilisation of foreign contribution by any person whether or not registered/prior permitted.
- TYK answer notes FC-6D intimation within 45 days for change/opening of utilisation accounts.

Section 18 - Intimation / annual return

- Every person with certificate/prior approval must intimate amount, source, manner of receipt, purpose and manner of utilisation.
- Annual return in Form FC-4 must be filed electronically within nine months of closure of financial year.
- Form FC-4 to include scanned income and expenditure statement, receipt and payment account and balance sheet.
- For articles and foreign securities, intimation is in Form FC-1.
- Reports must be certified by Chartered Accountant.
- Form FC-4 must include bank statement from exclusive foreign contribution account certified by bank officer.
- Accounting statements must be preserved for six years.
- Nil report is mandatory even if no foreign contribution is received. If no foreign contribution was received or utilised, CA certificate and financial statements need not be enclosed.

Section 19 - Maintenance of accounts

The registered/prior-permitted person must maintain an account of foreign contribution received and a record of the manner of utilisation. Rule 11 requires a separate set of accounts and records exclusively for foreign contribution received and utilised.

Section 20 - Audit of accounts

If a person fails to furnish intimation, furnishes defective intimation, or Central Government after inspection has reasonable cause to believe contravention exists, Central Government may authorise a Gazetted Officer holding Group A post or other officer/authority/organisation to audit books. The officer can enter premises at reasonable hour before sunset and after sunrise. Audit information is confidential except for purposes of FCRA.

Section 21 - Candidate for election

A candidate for election who received foreign contribution within 180 days immediately preceding the date of nomination must intimate amount, source, manner of receipt, purpose and utilisation. Rule 18 requires Form FC-1 electronically within 45 days from the date of nomination.

Section 22 - Disposal of assets created out of foreign contribution

If a person permitted to accept foreign contribution ceases to exist or becomes defunct, assets are disposed according to the law under which the person was registered/incorporated. If no such law exists, Central Government may notify the authority, manner and procedure for disposal, considering the nature of assets created out of foreign contribution.

Sections 23 to 27 - Inspection, search and seizure: study-material note

The uploaded chapter structure states that Chapter V covers Inspection, Search and Seizure in Sections 23 to 27. However, the text provided in the uploaded ICAI PDF jumps from Section 22 directly to Adjudication under Sections 28 to 30 and does not contain detailed extracted discussion of Sections 23 to 27. For exam continuity, remember the process placement: after accounts/intimation/audit and before confiscation/adjudication, the Act contains inspection, search and seizure machinery. The later provisions in the material show that seized article, currency or security can be confiscated if adjudged to have been received or obtained in contravention of the Act.

Sections 28 to 32 - Adjudication, appeal and revision

Section 28 - Confiscation

Any article, currency or security seized under the Act is liable to confiscation if adjudged under Section 29 to have been received or obtained in contravention of FCRA.

Section 29 - Adjudication of confiscation

Authority	Limit / power
Court of Session within local limits of seizure	Can adjudge confiscation without limit.
Officer not below Assistant Sessions Judge, specified by CG	Can adjudge confiscation subject to prescribed limit. Rule 19 limit: article/currency seized not exceeding Rs. 10,00,000.
Final order	May order confiscation or delivery to person entitled to possession or otherwise.

Section 30 - Procedure for confiscation

Reasonable opportunity of making representation must be given to the person from whom article/currency/security was seized before confiscation order is passed.

Section 31 - Appeals

Order appealed	Appellate authority	Time limit
Order under Section 29 by Court of Session	High Court to which such Court is subordinate	Within 1 month from communication; appellate court may allow further 1 month.
Order under Section 29 by specified officer	Court of Session within local limits of adjudication	Within 1 month from communication; appellate court may allow further 1 month.
Order under Section 5, refusal of permission, orders under Sections 12(2), 12(4), 14(1)	High Court within local limits where appellant resides/carries on business/works or principal office is located	Within 60 days from order.

Section 32 - Revision by Central Government

- Central Government may revise suo motu or on application by registered person.
- Suo motu revision cannot be made if order is more than one year old.
- Application for revision must be within one year from communication or knowledge, whichever is earlier; delayed application may be admitted on sufficient cause.
- Application fee: Rs. 3,000.
- From 1 September 2022, revision application is electronic through fcraonline.nic.in as per material.
- If CG merely declines to interfere, it is deemed not prejudicial; no appeal right on that basis.

Sections 33 to 41 - Offences and penalties

Section	Offence	Penalty / consequence
33	Knowingly gives false intimation under Section 9(c) or 18; or seeks prior permission/registration by fraud, false representation or concealment of material fact.	Imprisonment up to 6 months, or fine, or both.
34	Contravenes prohibitory order under Section 10 by paying/delivering/transferring/dealing with article/currency/security.	Imprisonment up to 3 years, or fine, or both; court may impose additional fine equivalent to market value/amount involved or part thereof.
35	Accepts, or assists any person/political party/organisation in accepting, foreign contribution/currency/security from foreign source in contravention of Act/rules/order.	Imprisonment up to 5 years, or fine, or both.
36	Article/currency/security liable to confiscation is not available for confiscation.	Fine not exceeding 5 times the value or Rs. 1,000, whichever is more, in addition to other fine.
37	Failure to comply with any provision where no separate penalty is provided.	Imprisonment up to 1 year, or fine, or both.
38	Repeat conviction under Section 35 or Section 37 relating to acceptance/utilisation of foreign contribution.	Cannot accept foreign contribution for 5 years from date of subsequent conviction.
39	Offences by companies.	Company and every person in charge/responsible deemed guilty, subject to defence of no knowledge or due diligence. If consent/connivance/neglect by director/manager/secretary/officer, that person also guilty.
40	Cognizance of offences.	No court shall take cognizance except with previous sanction of Central Government or authorised officer.
41	Compounding of certain offences.	Offences not punishable with imprisonment only may be compounded before prosecution. Not available for similar offence within 3 years from earlier compounding. After 3 years, subsequent offence deemed first offence for this purpose.

Sections 42 to 54 - Miscellaneous

Section / group	Provision
Sections 42 and 43	Inspecting officer authorised by Central Government may call for information, require production/delivery of useful documents/things and examine persons acquainted with facts. Offences may be investigated by specified authority with powers of officer-in-charge of police station for cognizable offence.
Sections 46 and 47	Central Government may give directions to authorities/persons/classes of persons for carrying out provisions, except rule-making power under

	Section 48; may delegate powers.
Section 48	Central Government may make rules for carrying out the Act.
Section 50	Central Government may exempt any person, association, organisation not being political party, or individual not being candidate for election, from all or any provisions in public interest and subject to conditions; can revoke/modify exemption.
Section 51	Act does not apply to transactions between Government of India and Government of any foreign country/territory.
Section 52	FCRA is in addition to, not in derogation of, other laws.

4. Exact Limits, Forms and Deadlines Chart

Item	Exact limit / form / deadline
Personal-use article gift exception	Market value in India on date of gift not more than Rs. 1,00,000.
Foreign contribution from relative	If exceeds Rs. 10 lakh or equivalent in a financial year, inform Central Government in Form FC-1 within 3 months from receipt.
Foreign hospitality prior permission	Application ordinarily 2 weeks before proposed onward journey.
Emergent medical aid abroad	Intimate within 1 month; no intimation if value is up to Rs. 1,00,000 or equivalent.
Administrative expenses	Maximum 20% of foreign contribution received in financial year unless prior CG approval.
Registration eligibility per material	Existence for 3 years; audited financials for past 3 years; at least Rs. 15 lakh spent excluding administrative expenses.
Registration form	Form FC-3A + Proforma AA affidavit.
Prior permission form	Form FC-3B + Proforma AA affidavit.
Prior permission instalment trigger	If value exceeds Rs. 1 crore, CG may permit instalments; next instalment after proof of 75% utilisation of previous instalment and field inquiry.
CG decision on registration/prior permission	Ordinarily within 90 days.
Certificate validity	5 years.
Second application bar	No second application within 6 months after submitting application for same project or registration.
Suspension	180 days + further period not exceeding 180 days.
Utilisation during suspension	Up to 25% of unutilised amount with prior CG approval; remaining 75% after revocation.
Cancellation cooling period	3 years from date of cancellation for fresh registration/prior permission.
Surrender form	Form FC-7.
Renewal application	Within 6 months before expiry, Form FC-3C.
Renewal fee	Rs. 5,000.
Late renewal/fresh consideration after lapse	Late fee Rs. 5,000, not later than 1 year after expiry, with sufficient written grounds.
Bank reporting	Within 48 hours of receipt/utilisation transaction.
Annual return	Form FC-4 within 9 months from closure of FY.
Preserve accounting statements	6 years.
Candidate election intimation	Foreign contribution received within 180 days before nomination; Form FC-1 within 45 days from nomination.
Adjudicating officer confiscation limit	Up to Rs. 10 lakh; Court of Session without limit.
Appeal against confiscation	Within 1 month; further 1 month extension possible.
High Court appeal for political nature/refusal/cancellation	Within 60 days.
Revision application	Within 1 year; fee Rs. 3,000.
Repeat offender bar	No foreign contribution for 5 years from subsequent conviction.

5. Question Bank Integrated from Test Your Knowledge and Case-Style Issues

Q1. A foreign citizen gifts an article to a resident Indian for personal use. When is it excluded from foreign contribution?

It is excluded only when the market value in India on the date of gift is not more than Rs. 1,00,000.

Q2. Mr. Sanjay receives an iPhone worth Rs. 1.10 lakh, an old chain worth Rs. 80,000 and securities worth Rs. 2 lakh from brothers who are foreign citizens. Is intimation required?

The article exception applies only up to Rs. 1 lakh for personal-use article. Securities from foreign source are foreign contribution. However, the TYK answer treats the overall relative-receipt intimation threshold as Rs. 10 lakh; since the value from relatives is below Rs. 10 lakh, intimation is not required.

Q3. A registration certificate is issued on 1 April 2023. Validity?

Five years, i.e., up to 31 March 2028.

Q4. An office-bearer of political party receives Rs. 9 lakh from sister abroad. Intimation?

Receipt from relative is permitted under Section 4. Intimation is required only if foreign contribution from relatives exceeds Rs. 10 lakh in a financial year; hence no intimation for Rs. 9 lakh.

Q5. Person found guilty of FCRA violation: what happens to unutilised amount?

Unutilised/unreceived foreign contribution shall not be utilised/received without prior approval of Central Government.

Q6. Can a registered association transfer foreign contribution to another registered NGO?

No. Section 7 now imposes a complete prohibition on transfer of foreign contribution to any other person.

Q7. Can foreign contribution be received/utilised through multiple bank accounts?

Receipt must first be only in SBI New Delhi Main Branch FCRA Account. Another FCRA Account and one or more utilisation accounts in scheduled banks may be opened for keeping/utilising/transferring funds, but no local funds may be deposited. Relevant intimation such as FC-6D must be made.

Q8. Can capital assets purchased from foreign contribution be in the name of an office-bearer?

No. Assets purchased with foreign contribution should be acquired and possessed in the name of the association, not an office-bearer.

Q9. Is donation from person of Indian origin with foreign citizenship foreign contribution?

Yes. A foreign citizen, including PIO/OCI holder with foreign passport, is foreign source. This differs from NRI who retains Indian citizenship.

Q10. Is Rs. 2 lakh remitted by relative in France foreign contribution requiring intimation?

Receipt from relative is permitted and no intimation is required because it does not exceed Rs. 10 lakh in financial year.

Q11. Certificate cancelled in public interest; only 2.5 years have passed. Can re-registration be granted?

No. Three-year cooling period from cancellation date applies. Re-registration/prior permission can be sought only after 3 years.

Q12. Partnership firm gets loan from London club for business. FCRA?

Commercial/business transaction is outside foreign contribution as per Explanation 3, but FEMA permissibility must be separately evaluated.

Q13. Hello FM gets funds from foreign company for audio news station. Allowed?

No. Association/company engaged in audio news/current affairs broadcasting is prohibited under Section 3.

Q14. Government servant receives emergent medical hospitality worth Rs. 65,000 abroad. Intimation?

No prior permission is needed for emergent medical aid. Since value is up to Rs. 1,00,000, no intimation is required.

Q15. Can interest earned on foreign contribution be invested in mutual funds?

No. Interest is also foreign contribution. Mutual funds involve market-linked risk and are treated as speculative activity; foreign contribution/income cannot be used for speculative business.

6. Examiner Traps and How to Avoid Them

- Do not write that all foreign-owned Indian companies are foreign source. Apply the FEMA-limit proviso.
- Do not treat foreign rupee donation as outside FCRA. Currency can be Indian or foreign.
- Do not forget interest: interest on foreign contribution is also foreign contribution.
- Do not say transfer to another FCRA-registered NGO is allowed. Section 7 now prohibits transfer to any other person.
- Do not confuse registration with prior permission: registration is general and valid for 5 years; prior permission is specific to donor, amount and purpose.
- Do not write 50% for admin expenses. Current uploaded material says 20%.
- Do not miss the SBI New Delhi Main Branch receipt requirement.
- Do not forget nil FC-4 return even when no foreign contribution is received.
- Do not ignore cooling period of 3 years after cancellation.
- Do not apply foreign hospitality rules to everyone. Section 6 applies to specified categories, mainly public/Government/political/judicial persons.

7. Last-Day Revision: One-Page Memory Grid

Memory trigger	Answer
FCRA purpose	Regulate acceptance/utilisation of foreign contribution and foreign hospitality so national interest/security is not prejudiced.
Main ministry	Ministry of Home Affairs.
2020 key changes	Public servant prohibited; transfer ban; admin cap 20%; Aadhaar; suspension extended; surrender; SBI NDMB FCRA Account.
Prohibited persons	Election candidate, media/news persons, public servants/Judges/Government servants/Govt-controlled body employees, Legislature members, political parties/office-bearers, political nature organisations, news/current affairs broadcasters.
Section 4 saves	Salary, business, Government-agent, delegation gift, relative, official channel remittance, scholarship/stipend.
Registration vs PP	Registration for established person; PP for specific donor/amount/project.
Forms	FC-3A registration, FC-3B prior permission, FC-3C renewal, FC-4 annual return, FC-1 article/security/relative/election intimation, FC-6D account intimation, FC-7 surrender.
Key limits	Rs. 1 lakh personal gift; Rs. 10 lakh relative intimation; 20% admin expenses; 180+180 suspension; 25% use during suspension; 3-year cooling; 5-year validity; 90-day CG processing; 9-month FC-4.
Penalty max imprisonment	False intimation/fraud: 6 months; prohibitory order: 3 years; illegal acceptance/assistance: 5 years; general penalty: 1 year.
Appeal/revision	Confiscation appeal 1 month + 1 month; other High Court appeal 60 days; revision 1 year; revision fee Rs. 3,000.

REVISED ADDENDUM - VISIBLE INTEGRATION OF CASE SCENARIOS, WHAT-IF TRIGGERS AND IMPORTANT POINTS

This addendum is intentionally explicit. It makes the case scenario integration, what-if triggers, and important-points PDF/Hemant notes coverage visible and exam-usable. Treat it as part of the main FCRA notes, not a separate summary.

A. Source-Coverage Fix: What Has Been Added Now

User concern	Revision made in this version	Where to use it
Case scenario integration not visible	Added full Case Scenario 65 integration with each MCQ/descriptive issue mapped to the exact FCRA provision and exam answer.	Use Section C below after reading the master case study.
What-if scenarios and triggers missing	Added a dedicated 45-trigger matrix covering foreign source, foreign contribution, Section 3 prohibitions, Section 4 exceptions, foreign hospitality, registration/prior permission, bank accounts, utilisation, suspension/cancellation, appeals and penalties.	Use Section D for quick recall and MCQ elimination.
Important Points PDF not separately covered	Added a visible Important Points PDF integration table, cross-linked to the main provisions.	Use Section B as a one-page revision grid.
Hemant notes points not separately identifiable	Added Hemant-style form/deadline/process grid and additional points such as website disclosure, Rule 17A change forms and compounding/revision e-filing.	Use Sections E and F for exam-memory.
Need Chapter 1 style flow	Retained the story-based approach and added case-linked explanations: facts first, provision second, trigger third, answer last.	Read in this order: master case -> Section D triggers -> Section-wise notes -> Section C case integration.

B. Important Points PDF Integration - FCRA, 2010

The following table is built from the Important Points PDF and is now explicitly placed in the notes so nothing looks hidden or merely implied.

Important point	Exact limit / rule	Where it appears in the chapter	Exam trigger
Gift/article for personal use	Market value in India on gift date must not exceed Rs. 1,00,000.	Definition of foreign contribution - Section 2(1)(h), Rule 6A.	Foreign uncle gifts watch/iPhone/article.
UN, IMF, World Bank and notified agencies	Not treated as foreign source.	Foreign source - Section 2(1)(j).	Grant received from UN/World Bank type bodies.
Person under FCRA	Includes individual, HUF, association and Section 8 company.	Person - Section 2(1)(m).	Individual/HUF asks for prior permission.
Relative receipts	Allowed even for Section 3 prohibited persons; intimation only if exceeds Rs. 10 lakh in a financial year.	Section 4(e), Rule 6.	Foreign relative remits money.
Relative intimation form and time	Form FC-1 within 3 months from receipt if threshold crosses Rs. 10 lakh.	Section 4(e), Rule 6.	Rs. 12 lakh from relative.
Foreign hospitality for specified persons	Prior approval of Central Government required before acceptance abroad.	Section 6, Rule 7.	Judge/Government servant/Legislature member foreign trip.
Emergency medical hospitality	No prior approval. Intimation within 1 month only if value exceeds Rs. 1,00,000.	Section 6 proviso and Rule 7.	IAS officer gets foreign medical support abroad.
Speculative use prohibited	Foreign contribution and income from it cannot be used for speculative business; mutual funds/shares are risky market-linked.	Section 8, Rule 4.	NGO invests FC interest in mutual funds.
Administrative expense cap	Maximum 20% of foreign contribution received in a financial year, unless prior CG approval.	Section 8(1)(b), Rule 5.	Large salaries/legal/admin spend out of FC.
Registration/prior approval needed	Required for definite cultural, economic, educational, religious or social programme.	Section 11.	NGO wants foreign donor funding.
Registration track practical eligibility	Existence for at least 3 years and spending Rs. 15 lakh or more on core activities during last 3 financial years, excluding administrative expenses.	Section 11 and Rule 9 guidance in material.	New NGO vs old NGO.
CG processing period	Ordinarily within 90 days for registration/prior permission and renewal.	Sections 12 and 16.	Application filed; CG delay.
Certificate validity	5 years from date of issue/registration.	Section 12(6), Section 16.	Certificate issued on 1 April 2023 -> valid till 31 March 2028.

C. Case Scenario Booklet Integration - Case Scenario 65

This section deliberately integrates the Case Scenario Booklet instead of merely adding a small TYK table. The answers below are written as exam-safe answers based on the uploaded FCRA chapter. Where the booklet reasoning appears loose, the notes below give the corrected provision-based answer.

C1. Case Scenario 65 - Common facts

Toastea Ltd. had FCRA registration. The Central Government cancelled the certificate after giving opportunity of being heard, on the ground of public interest. Only two and a half years have passed. Other linked situations involve KG & Co. obtaining a loan from a London club, Hello FM receiving foreign funds for an audio news radio station, Mr. Happy receiving a wristwatch from a US citizen uncle, IAS officer Ramakant Hathi receiving medical hospitality abroad, and XYZ Foundation investing foreign contribution/interest in mutual funds.

Question from Case Scenario 65	Provision trigger	Correct exam answer	Why
Can Toastea Ltd. apply for re-registration/prior permission after cancellation only 2.5 years ago?	Section 14(3) cooling period after cancellation.	No, not yet. It is not eligible for registration or prior permission until 3 years from cancellation date are completed.	The FCRA chapter expressly states that a person whose certificate is cancelled is not eligible for registration or prior permission for 3 years. So 2.5 years is insufficient.
Is KG & Co. loan from London club foreign contribution?	Definition of foreign contribution and Explanation 3 commercial/business exclusion; also consider FEMA separately.	Generally not foreign contribution under FCRA if it is a genuine commercial loan/business transaction; FEMA permissibility must be checked separately.	FCRA targets donation/delivery/transfer from foreign source; commercial/business receipts are excluded. The study answer also flags FEMA separately.
Can Hello FM receive funds from foreign company for FM/audio news station?	Section 3 prohibition for association/company engaged in audio news/audio-visual news/current affairs.	No. It is prohibited.	News/current affairs broadcasters are directly in the prohibited category; FCRA registration alone cannot override Section 3.
Does a wristwatch worth Rs. 25,000 from US citizen uncle qualify as foreign contribution?	Section 2(1)(h) article personal-use exception; Section 4 relative exception.	No, it is outside foreign contribution because article for personal use does not exceed Rs. 1,00,000; also receipt from relative is protected by Section 4.	Threshold is Rs. 1,00,000, not Rs. 50,000. Value Rs. 25,000 is safe.
Does IAS officer need to report emergent medical treatment worth Rs. 65,000 abroad?	Section 6 and Rule 7 emergency medical aid exception.	No prior approval and no intimation required, because emergent medical aid value is up to Rs. 1,00,000.	If it exceeded Rs. 1,00,000, intimation to CG within 1 month would be needed.
Can XYZ Foundation invest FC interest/deposit maturity proceeds in mutual funds?	Section 8 and Rule 4 speculative business; Explanation 2 to foreign contribution.	No. Interest/income is also foreign contribution, and mutual funds are treated as speculative/market-linked investment.	Foreign contribution and income arising from it must be used only for purpose received and not speculative business.

C2. Case Scenario 65 - Answer-writing templates

- Toastea Ltd.: State Section 14 cancellation + opportunity of hearing + Section 14(3) three-year bar. Conclude: after 2.5 years, it cannot obtain fresh registration or prior permission; it must wait until 3 years are completed.
- KG & Co.: First classify receipt. Loan/business receipt is not a donation-type foreign contribution under FCRA if genuine; however, FEMA borrowing provisions may apply. Conclude FCRA not attracted, FEMA separately.
- Hello FM: Start with Section 3 prohibited recipients. Audio news/current affairs broadcasting entity cannot accept FC. Conclude not permitted even if registered.
- Mr. Happy: Start with foreign source + article + personal-use exception. Since article value Rs. 25,000 <= Rs. 1,00,000, not foreign contribution. Also relative receipt is protected.
- Ramakant Hathi: Foreign hospitality normally requires prior permission for Government servants. Emergency medical aid exception applies. Since Rs. 65,000 <= Rs. 1,00,000, no intimation.
- XYZ Foundation: Interest on FC is FC. Mutual funds/shares are speculative activity. Section 8 prohibits speculative use. Conclude not allowed.

D. What-if Scenarios and Trigger Matrix

Use this as the main MCQ and case-study weapon. Each row tells you what fact triggers which FCRA provision and what the conclusion should be.

No.	What if fact	Trigger provision	Conclusion
1	Indian citizen living in Dubai with Indian passport donates from personal savings	Not foreign source merely because he is abroad	FCRA not attracted as foreign contribution from foreign source; keep passport evidence.
2	PIO/OCI/Indian-origin person with foreign passport donates	Foreign citizen = foreign source	Donation is foreign contribution unless excluded.
3	Donation received in Indian rupees from foreign	Currency may be Indian or foreign	Still foreign contribution.

	citizen		
4	World Bank/IMF/UN grant	Specified agencies excluded from foreign source	Not foreign source under FCRA definition.
5	Foreign-owned Indian company donates but holding within FEMA FDI limits	FEMA-limit proviso to foreign source definition	Not treated as foreign source due to proviso.
6	Foreign citizen gifts article worth Rs. 80,000 for personal use	Personal article <= Rs. 1,00,000	Excluded from foreign contribution.
7	Foreign citizen gifts article worth Rs. 1,10,000 for personal use	Personal article exceeds Rs. 1,00,000	Foreign contribution if from foreign source.
8	Foreign student pays fees to Indian college	Commercial/fee exclusion	Not foreign contribution.
9	Foreign client pays for services	Ordinary course business exclusion	Not foreign contribution.
10	Interest on FCRA fixed deposit	Income from FC is FC	Treat as foreign contribution.
11	Candidate for election receives foreign donation	Section 3 prohibition	Not allowed unless Section 4 exception.
12	Public servant receives foreign donation	Section 3 prohibition after 2020 amendment	Not allowed unless Section 4 exception.
13	Political party office-bearer receives Rs. 9 lakh from foreign sister	Relative exception; threshold not crossed	Allowed; no FC-1 intimation.
14	Political party office-bearer receives Rs. 12 lakh from foreign sister	Relative exception but > Rs. 10 lakh	Allowed but Form FC-1 within 3 months.
15	Registered newspaper editor receives foreign grant	Section 3 prohibition	Not allowed.
16	Audio news broadcaster receives foreign funding	Section 3 prohibition	Not allowed.
17	Organisation looks political but not registered political party	Section 5 political nature notification	CG can notify based on activities/ideology/programme/association.
18	Government servant foreign trip sponsored by foreign foundation	Section 6 foreign hospitality	Prior CG permission in Form FC-2 ordinarily 2 weeks before travel.
19	Judge gets emergency medical help abroad Rs. 90,000	Emergency medical aid <= Rs. 1,00,000	No prior permission; no intimation.
20	Judge gets emergency medical help abroad Rs. 1,50,000	Emergency medical aid > Rs. 1,00,000	No prior permission, but intimation within 1 month.
21	FCRA registered NGO transfers FC to another registered NGO	Section 7 post-2020 transfer ban	Not allowed. Blanket prohibition.
22	FCRA registered NGO spends 25% of FC on admin without approval	Section 8 20% cap	Contravention unless prior CG approval for excess.
23	NGO invests FC interest in mutual funds	Rule 4 speculative business	Not allowed.
24	NGO invests in debt-based secure investment	Rule 4 note	Not treated as speculative investment.
25	New NGO with one year existence seeks registration	Registration practical eligibility not met	Use prior permission route for specific donor/amount/project.
26	NGO has 3 years existence and spent Rs. 15 lakh core activities	Registration track eligibility	May apply Form FC-3A if Section 12 conditions satisfied.
27	Prior permission application for Rs. 1.5 crore	Rule 9A instalment possibility	CG may permit instalments; subsequent instalment after 75% utilisation proof and field inquiry.
28	FCRA certificate suspended	Section 13	Cannot receive FC; existing FC utilisation only with CG approval.
29	Suspended certificate, wants to spend unutilised FC	Rule 14	Up to 25% with prior CG approval for declared aims; balance 75% after revocation.
30	Certificate cancelled for public interest	Section 14	OOBH required; 3-year bar under Section 14(3).
31	Certificate surrendered	Section 14A	Use Form FC-7; CG inquiry; certificate deemed expired on acceptance.
32	Cancellation/surrender and unutilised funds remain	Section 15	FC/assets vest with banking authority until directions/fresh registration.
33	Renewal due	Section 16	Apply within 6 months before expiry in Form FC-3C with Rs. 5,000 fee.
34	Renewal missed but within 1 year after expiry	Rule 12	May be considered with Rs. 5,000 late fee and sufficient grounds.
35	No renewal application/fee before expiry	Rule 12 consequence	Certificate deemed ceased; cannot receive/utilise FC; FC/assets vest.
36	FC received in local domestic bank account directly	Section 17	Wrong. Must first be received in SBI NDMB FCRA Account.
37	Local donations deposited in FCRA account	Section 17 no mixing	Not allowed.
38	Bank sees FCRA transaction of unregistered person	Rule 16	Bank reports to CG within 48 hours.
39	No FC received during year	Rule 17 annual return	Nil Form FC-4 still required; no CA certificate/financial statements if no receipt/utilisation.
40	FC received in kind/articles/securities	Rule 17	Intimation in Form FC-1.
41	Candidate received FC 100 days before nomination	Section 21 / Rule 18	Intimate in Form FC-1 within 45 days from nomination.
42	Confiscation of seized ACS worth Rs. 8 lakh	Section 29 / Rule 19	Assistant Sessions Judge-level officer may adjudge up to Rs. 10 lakh.
43	Appeal against confiscation by officer	Section 31	Appeal to Court of Session within 1 month, extendable by 1 month.
44	Appeal against cancellation/refusal by CG	Section 31	Appeal to High Court within 60 days.
45	Repeat offence under Section 35/37	Section 38	Bar from accepting FC for 5 years from subsequent conviction.

E. Hemant Notes Integration - Forms, Time Limits and Hidden Points

Form / item	Use	Deadline / fee / limit	Trigger
FC-1	Intimation for receipt of foreign contribution in articles/securities; relative	Relative receipt > Rs. 10 lakh: within 3 months. Candidate: within 45 days from	Article/security/relative/candidate cases.

	receipt above limit; candidate for election.	nomination.	
FC-2	Prior permission to accept foreign hospitality.	Application ordinarily at least 2 weeks before proposed journey.	Specified public/Government/political/judicial person foreign visit.
FC-3A	Application for FCRA registration.	CG ordinarily decides within 90 days; certificate valid 5 years.	Established eligible organisation.
FC-3B	Application for prior permission.	Specific donor, amount and purpose; no second application for same project within 6 months.	New/formative organisation or specific project.
FC-3C	Renewal of FCRA registration.	Within 6 months before expiry; fee Rs. 5,000; renewed validity 5 years.	Certificate nearing expiry.
FC-4	Annual return of FC received and utilised.	Within 9 months from FY end; nil return required.	Every FCRA person annually.
FC-6A to FC-6E	Intimation of changes: name/address, nature/objects/local registration, bank/branch/account, utilisation accounts, key office bearers.	Changes as per Rule 17A; effective after CG approval as per Hemant notes.	Change in details after registration.
FC-6D	Opening additional utilisation bank accounts.	Study material notes intimation within 15 days of opening any account for utilisation.	New utilisation account opened.
FC-7	Surrender of certificate.	Electronic application; validity deemed expired on CG acceptance.	Voluntary surrender.
Revision application under Section 32	Revision by Central Government.	Within 1 year from communication/knowledge; fee Rs. 3,000; e-form only as per notes.	Aggrieved by CG order and revision route used.
Bank reporting	Bank report to CG.	Within 48 hours for any transaction of receipt/utilisation of FC, whether or not registered/prior permission.	Bank-level monitoring.
Records preservation	Accounting statements.	Preserve for 6 years.	Annual return/account maintenance.
Website disclosure	Publish FC details.	Within 15 days of quarter-end as per Hemant notes.	Additional compliance recall.

F. Penalties and Consequences - Trigger Based

Section	Trigger offence / default	Penalty / consequence	Memory hook
33	False intimation under Section 9(c)/18 or fraud/false representation/concealment for prior permission/registration.	Imprisonment up to 6 months, or fine, or both.	False filing.
34	Contravention of Section 10 prohibitory order dealing with article/currency/security.	Imprisonment up to 3 years, or fine, or both; additional fine up to market value/amount involved as court deems fit.	Ignored prohibitory order.
35	Accepts or assists acceptance of foreign contribution/currency/security from foreign source in contravention.	Imprisonment up to 5 years, or fine, or both.	Core illegal FC receipt.
36	Act/omission makes article/currency/security liable to confiscation, but ACS not available for confiscation.	Fine not exceeding 5 times value of ACS or Rs. 1,000, whichever is more, in addition to other fine.	Confiscation substitute fine.
37	Fails to comply with provision for which no separate penalty is provided.	Imprisonment up to 1 year, or fine, or both.	Residual offence.
38	Repeat conviction under Section 35 or Section 37 relating to acceptance/utilisation of FC.	Cannot accept foreign contribution for 5 years from subsequent conviction.	Repeat = 5-year bar.
39	Offence by company.	Company and persons in charge/responsible deemed guilty; defence if without knowledge or due diligence. Directors/managers/secretaries liable if consent/connivance/neglect.	Company + responsible persons.
40	Cognizance by court.	No court takes cognizance except with previous sanction of Central Government or authorised officer.	CG sanction needed.
41	Compounding.	Offence not punishable with imprisonment only may be compounded before prosecution; similar offence within 3 years cannot be compounded; after compounding no prosecution.	3-year compounding cooling.

G. Last-Minute Full Chapter Memory Story - Ultra Condensed

A foreign source wants to donate. First, test whether donor is foreign source and receipt is foreign contribution. Then test whether recipient is prohibited under Section 3 or saved by Section 4. If it is foreign hospitality to specified public/political/judicial/Government category, use Section 6 and Form FC-2. If an eligible NGO wants FC, choose registration or prior permission under Sections 11-12, with FCRA Account and identity proof. Receive money only in SBI New Delhi Main Branch FCRA Account under Section 17. Use it only for the purpose received, never transfer it, never speculate, and keep admin expenses within 20%. File FC-4 within 9 months, keep separate accounts and records for 6 years. If default happens, CG may prohibit, suspend, cancel, vest assets, audit, confiscate and prosecute. Appeals/revisions/compounding then follow Sections 31, 32 and 41.

H. Final Checklist: Have We Covered the Missing Items?

- Case Scenario Booklet: Case Scenario 65 is now separately integrated with provision-wise answers.
- What-if scenarios: 45 trigger rows added, covering every major exam fact pattern.
- Important Points PDF: every visible FCRA important point is now separately tabled and mapped to provisions.
- Hemant notes: forms, deadline grid, website disclosure, Rule 17A changes, revision and compounding points added.
- Exact limits: Rs. 1,00,000, Rs. 10 lakh, Rs. 15 lakh, 20%, 25%/75%, 48 hours, 15 days, 45 days, 90 days, 180+180 days, 3 years, 5 years, 6 months, 9 months, Rs. 5,000 and Rs. 3,000 included.
- Process: end-to-end FCRA receipt-registration-utilisation-reporting-contravention flow retained and now reinforced.

End of revised FCRA addendum. Read this addendum after the main master case study for complete case-linked recall.

THE FOREIGN EXCHANGE MANAGEMENT ACT, 1999

Comprehensive Chapter 1-Style Notes with Mega Case Study, Exact Limits, Penalties, Case Questions and Revision Charts

How to use this document

Read the Mega Case Study first. It has deliberately been drafted to trigger every important FEMA concept: residential status, current account transactions, capital account transactions, imports, exports, ECB, overseas investment, authorised persons, penalties, compounding, adjudication, appeals, Directorate of Enforcement and miscellaneous provisions.

Then read the section-wise notes. Each provision is explained using the facts of the case study so that the provisions do not feel isolated.

Exact limits, thresholds, timelines, monetary caps and penalties have been written wherever the uploaded material provides them. Avoid answering with vague phrases such as prescribed limit or prescribed threshold unless the law itself leaves the item to be prescribed.

Source base restricted to uploaded material: ICAI FEMA chapter, Case Scenario Booklet, Important Points PDF and available Hemant notes.

A. Master Mega Case Study - GlobalAxis India Limited

This case study is the spine of the chapter. Every later provision is linked back to it. Read it like a story, and keep asking: is this a current account transaction, capital account transaction, authorised person issue, realisation issue, penalty issue, appeal issue, or enforcement issue?

GlobalAxis India Limited (GIL) is an Indian company registered in Mumbai. It provides software services to clients in the USA, UK, Singapore and Germany. In the previous three financial years, it earned foreign exchange of USD 20 million. Its managing director, Arjun Mehta, earlier worked in the USA for 12 years and returned to India on 1 July 2023 to permanently manage GIL. While he was outside India, he had opened a foreign currency bank account, acquired US securities, and purchased an apartment in California. His father, who was resident outside India for many years, also left him foreign securities and a flat in London by inheritance.

GIL wants to expand globally. It proposes to open a branch in Taiwan and send Ramesh, a senior executive, to Taiwan for an uncertain period to set up and run the branch. It also proposes to create a wholly-owned subsidiary in Singapore and invest in its equity capital. The board considers issuing a corporate guarantee in favour of an overseas lender who will lend to the Singapore subsidiary. It also explores investing in a listed foreign company, acquiring shares under ESOP, and using eligible assets abroad for fresh foreign investment.

On the personal side, Arjun wants to remit money for his son's university education abroad, his father's surgery in Germany, his family's proposed emigration to New Zealand, his wife's private visit to Australia, and a gift to his daughter abroad. His nephew has won lottery income in India and wants to remit USD 20,000 out of the winnings. GIL also wants to donate to a foreign university for creating a chair in technology, appoint an agent abroad for selling a commercial plot in Pune to a foreign buyer, reimburse pre-incorporation expenses to its foreign investor, pay for foreign consultancy services, hire a transponder for an overseas channel, and pay membership fees of a Protection and Indemnity Club.

GIL imports machinery from a German supplier. Some invoices are payable within six months; some are under a deferred payment arrangement; and one invoice has been delayed due to a quality dispute. GIL asks its authorised dealer bank whether import dues can be extended, whether interest can be paid, whether evidence of import must be uploaded in IDPMS, whether a service import guarantee can be issued, and whether foreign currency can be brought into India without declaration.

GIL exports software, goods and demonstration samples. It receives advance payment from a Swedish buyer for 200 electric bikes, agrees to ship the goods later, and considers paying interest on the advance. It also sends a gift sample of jewellery and wants to know whether declaration is required. Some export proceeds are not realised within the normal period because the buyer is in financial distress. GIL asks whether it must take reasonable steps to realise and repatriate, whether the AD can grant extension, and whether delay itself automatically creates contravention.

GIL raises external commercial borrowing from a recognised lender in a FATF/IOSCO compliant jurisdiction. One loan is FCY denominated, one is INR denominated. A manufacturing unit wants USD 50 million with one-year MAMP. Another group company wants ECB for working capital and general corporate purposes. A startup subsidiary wants USD 3 million ECB. One borrower is under investigation, and another is under restructuring. The group also considers conversion of ECB into equity, creation of charge on assets, issue of corporate/personal guarantee, parking ECB proceeds abroad and domestically, reporting Form ECB and Form ECB-2, and the consequences of delay in reporting.

GIL's compliance officer uses an authorised dealer bank for all foreign exchange dealings. However, one employee tries to exchange USD 1,000 directly with a friend for a better rate. Another accepts USD cash from a foreign tourist without a money changer licence. A third routes money through an informal arrangement where rupees are paid in India and dollars are paid abroad. These facts test the prohibitions in Section 3 and the requirement that foreign exchange be dealt with through authorised persons.

During audit, RBI finds that the authorised dealer did not obtain proper declarations, did not ensure utilisation of foreign exchange for the declared purpose, and failed to file required returns. RBI considers issuing directions and inspection. The Directorate of Enforcement begins investigation. The Adjudicating Authority issues notice and later imposes penalty. GIL wants to compound the contravention, appeal to Special Director (Appeals), then to Appellate Tribunal, and finally to High Court on a question of law. One director argues that he was not aware of the contravention. Another had consented to the transaction. One contravener dies during proceedings. These facts test Sections 13 to 15, Sections 16 to 35, Sections 36 to 38 and Sections 42 to 43.

Finally, assume that if the Central Government considers it necessary in public interest, it can suspend operation of FEMA or give policy directions. If legal proceedings are initiated for acts done in good faith under FEMA, protection may apply. If documents or presumptions are required in evidence, miscellaneous provisions also become relevant.

Mega Case Trigger Map - Where Every Provision Appears

Case fact	Provision triggered	Memory hook
GIL is in India; Arjun returned; Ramesh goes abroad; branches exist in India/outside India	Section 2(v), 2(w), residential status; Section 1 extent	FEMA status is purpose + 182 days + date-based, not citizenship-based.
Employee exchanges USD privately; restaurant accepts USD cash; hawala-like settlement	Section 3	Deal/transfer/receive/pay only as permitted and generally through authorised person.
Arjun holds foreign bank account, securities and foreign property acquired while non-resident/inherited	Sections 4 and 6(4)	Resident can hold eligible foreign assets acquired when non-resident or inherited from non-resident.
Education, medical, emigration, private visit, gift, donation, consultancy, transponder, P&I Club	Section 5 + Current Account Rules Schedules I/II/III	Current account is permitted unless prohibited or approval-based.
ODI in Singapore subsidiary, OPI in foreign listed securities, guarantees, transfer, liquidation, restructuring	Section 6 + OI Rules/Regulations 2022	Capital account is prohibited unless specifically permitted.
Imports, deferred payments, IDPMS, guarantees, foreign currency brought into India	Import Master Direction + Section 5/6	Normal import payment within six months; trade credit rules if beyond relevant periods.
Exports, advance, declaration, realisation, repatriation, extension	Sections 7 and 8 + Export Regulations	Declare, realise and repatriate; export proceeds normally within nine months.
AD bank fails compliance; RBI directions and inspection	Sections 10, 11 and 12	Authorised person is the gatekeeper and RBI can inspect and direct.
Penalty, compounding, appeal, enforcement, company contravention, death	Sections 13-15, 16-35, 36-38, 42-43	Penalty, confiscation, 180-day compounding disposal, appeals and company liability.
Good faith action, CG directions, suspension, documents	Sections 39-49	Miscellaneous provisions close the procedural loop.

B. FEMA in One Page - Structure, Objective and Exam Approach

FEMA is a management law, not merely a penal law. Its object is to facilitate external trade and payments and to promote orderly development and maintenance of the foreign exchange market in India. It applies to the whole of India, branches/offices/agencies outside India owned or controlled by a person resident in India, and contraventions committed outside India by persons to whom the Act applies.

Chapter	Sections	Area
I	1-2	Preliminary: extent, commencement and definitions
II	3-9	Regulation and management of foreign exchange
III	10-12	Authorised persons
IV	13-15	Contraventions, penalties and compounding

V	16-35	Adjudication and appeals
VI	36-38	Directorate of Enforcement
VII	39-49	Miscellaneous provisions

Golden rule for classification

Current Account Transaction: freely permitted unless specifically prohibited or made approval-based.
Capital Account Transaction: not permitted unless specifically or generally permitted.
Debt instruments: regulated by RBI in consultation with Central Government.
Non-debt instruments: regulated by Central Government in consultation with RBI.
Citizenship is irrelevant for FEMA residential status; purpose and stay are decisive.

C. Section-wise Detailed Notes with Case Linkages

1. Section 1 - Short title, extent, application and commencement

FEMA extends to the whole of India. It also applies to branches, offices and agencies outside India that are owned or controlled by a person resident in India. It also catches contraventions committed outside India by persons to whom FEMA applies. The Act came into force on 1 June 2000.

Case link

GIL controls its Singapore subsidiary and Taiwan branch. A contravention through these structures can still attract FEMA because the Act follows owned/controlled branches/offices/agencies and not merely physical territory.

2. Section 2 - Definitions that decide the entire chapter

Term	Exact meaning / exam impact
Authorised person - Section 2(c)	Authorised dealer, money changer, offshore banking unit or any person authorised under Section 10(1) to deal in foreign exchange or foreign securities.
Capital account transaction - Section 2(e)	Transaction altering assets or liabilities, including contingent liabilities, outside India of PRII or assets/liabilities in India of PROI.
Current account transaction - Section 2(j)	Transaction other than capital account transaction; includes foreign trade payments, short-term banking/credit in ordinary course, interest on loans, income from investments, living expenses, travel, education and medical care.
Export - Section 2(l)	Taking goods out of India or providing services from India to a person outside India.
Foreign exchange - Section 2(n)	Foreign currency plus deposits, credits, balances, drafts, travellers cheques, letters of credit and bills in foreign currency or payable in foreign currency/Indian currency in specified cases.
Foreign security - Section 2(o)	Security denominated or expressed in foreign currency, including where return is payable in Indian currency.
Import - Section 2(p)	Bringing into India any goods or services.
Person - Section 2(u)	Individual, HUF, company, firm, AOP/BOI, artificial juridical person, and agency/office/branch owned or controlled by such person.
Person resident in India - Section 2(v)	Individual resident in India for more than 182 days in preceding FY, subject to purpose-based exclusions/inclusions; includes Indian incorporated bodies and branches/offices based on ownership/control.
Person resident outside India - Section 2(w)	A person who is not resident in India.
Repatriate to India - Section 2(y)	Bring realised foreign exchange into India, sell to authorised person or hold in authorised account as permitted; includes using realised amount to discharge foreign exchange debt/liability.
Transfer - Section 2(ze)	Sale, purchase, exchange, mortgage, pledge, gift, loan or any form of transfer of right, title, possession or lien.

3. Residential Status under FEMA - the Chapter 1-style decision tree

Residential status under FEMA is transaction-date based. It is not a whole-year status like income-tax law. The question is: on the date of the transaction, is the person resident in India or outside India?

Situation	Status consequence
Stayed in India for more than 182 days in preceding financial year and no exception applies	Person resident in India.
Person goes out of India or stays outside India for employment, business/vocation, or uncertain period	Person resident outside India from that date despite past 182-day stay.
Person comes to India for employment, business/vocation, or uncertain period	Person resident in India from the date of coming/staying for that purpose.
Person comes to India otherwise than for employment, business/vocation or uncertain period	Person resident outside India even if stay becomes more than 182 days.
Indian company/body corporate incorporated in India	Person resident in India.
Branch in India owned/controlled by PROI	Person resident in India.
Branch outside India owned/controlled by PRII	Person resident in India.

Case link

Arjun becomes PRII when he returns to India to manage GIL for an uncertain period. Ramesh becomes PROI when he goes abroad to set up the Taiwan branch for business/uncertain period. GIL remains PRII because it is incorporated in India. A Singapore branch controlled by Mumbai can be treated as PRII under the definition.

Case law memory: Basant Kumar Sharma says an NRI returning to stay in India for an uncertain period becomes a person resident in India and NRE account should be redesignated. K. Ramullan emphasises permanence/uncertain stay and not a short fixed visit.

4. Section 3 - Dealing in foreign exchange etc.

Section 3 is the blanket anti-bypass provision. Except as provided in FEMA or with general/special permission of RBI, no person shall:

- deal in or transfer foreign exchange or foreign security to any person other than an authorised person;
- make payment to or for the credit of any person resident outside India in any manner;
- receive payment otherwise than through an authorised person by order or on behalf of a person resident outside India;
- enter into any financial transaction in India as consideration for or in association with acquisition/creation/transfer of a right to acquire any asset outside India.

Case link

Employee exchanging USD 1,000 directly with a friend violates the authorised person route. Restaurant accepting USD cash from a foreign tourist without money changer licence is receipt otherwise than through authorised person. Hawala-style settlement where rupees are paid in India and dollars abroad is caught by Section 3(d).

5. Section 4 - Holding foreign exchange, foreign security or foreign property

No person resident in India shall acquire, hold, own, possess or transfer foreign exchange, foreign security or immovable property outside India except as provided in FEMA. This is why permissions under Section 6, OI Rules and exceptions under Section 6(4) matter.

Case link

Arjun can continue to hold foreign bank accounts, securities and property acquired while he was resident outside India or inherited from a person resident outside India, because Section 6(4) gives an exception. But fresh acquisition by a resident must fit within FEMA permission.

6. Section 5 - Current Account Transactions

Any person may sell or draw foreign exchange to/from an authorised person if the transaction is a current account transaction, subject to Central Government restrictions made in public interest in consultation with RBI. Current account transactions are therefore generally free, but Schedules I, II and III create prohibitions/approval requirements.

Schedule / item	Rule
Schedule I - Prohibited	No foreign exchange drawal for these transactions. Includes lottery winnings, racing/riding income, purchase of lottery tickets/banned magazines/football pools/sweepstakes, commission on exports towards equity investment in overseas JV/WOS, dividend where dividend balancing applies, commission on exports under

	Rupee State Credit Route except up to 10% of invoice value for tea/tobacco, call-back telephone services, and interest on Non-resident Special Rupee Scheme account.
Schedule II - Central Government approval	Cultural tours; advertisement in foreign print media by State Government/PSU beyond USD 10,000 for purposes other than tourism/foreign investment/international bidding; freight of vessel chartered by PSU; government/PSU import through ocean transport on CIF basis; multimodal transport operators; hiring transponders; container detention charges above DG Shipping rate; prize money/sponsorship of sports abroad by person other than international/national/state sports bodies if amount exceeds USD 100,000; P&I Club membership.
Schedule III - RBI approval if limit crossed	Individuals can use up to USD 250,000 per financial year for private visits except Nepal/Bhutan, gift/donation, employment abroad, emigration, maintenance of close relatives, business/conference/training/medical attendant, medical treatment, studies abroad and other current account transactions. Extra remittance needs RBI approval, except emigration/medical/studies may exceed if country/institution/university requires.
Persons other than individuals - RBI approval thresholds	Donations exceeding 1% of foreign exchange earnings during previous three financial years or USD 5 million, whichever is less; commission to agents abroad for sale of flats/commercial plots in India exceeding USD 25,000 or 5% of inward remittance, whichever is more; consultancy remittances exceeding USD 10 million per infrastructure project or USD 1 million per other project; reimbursement of pre-incorporation expenses exceeding 5% of investment brought into India or USD 100,000, whichever is higher.

Exact LRS rule

Resident individuals, including minors, may remit up to USD 250,000 per financial year for permissible current or capital account transactions or a combination. Minor remittance declaration is countersigned by natural guardian. LRS is not available to corporates, partnership firms, HUFs or trusts. Family consolidation is allowed if each member complies; clubbing is not allowed for capital account transactions unless family members are co-owners/co-partners.

Case link

Arjun can remit for education, medical treatment and emigration even beyond USD 250,000 if required by university/medical institute/country of emigration. Wife's private visit of USD 20,000 is within LRS. Lottery winnings cannot be remitted. GIL's donation must be checked against 1% of foreign exchange earnings or USD 5 million, whichever is less. Agent commission for sale of Pune property needs RBI approval if it exceeds USD 25,000 or 5% of inward remittance, whichever is more. P&I Club membership needs Government approval unless an applicable RFC/EEFC exemption applies.

7. Imports of Goods and Services - practical FEMA rules

Import payments are current account transactions but are regulated through Master Directions and AD bank checks. AD Category-I banks must ensure imports conform to Foreign Trade Policy, Current Account Rules and RBI directions.

Topic	Exact rule / limit
Normal import payment	Remittance against imports should be completed not later than 6 months from date of shipment, except amounts withheld towards guarantee of performance etc.
Delayed import dues	AD may permit settlement due to disputes, financial difficulties etc. Interest on delayed payments/usance bills/overdue interest payable only up to 3 years from date of shipment at rate prescribed for trade credit.
Deferred payment/trade credit	Deferred payment arrangements including suppliers/buyers credit: up to 3 years for capital goods and up to 1 year or operating cycle, whichever is less, for non-capital goods, treated as trade credits.
Extension by AD	AD can grant extension up to 6 months at a time, maximum up to 3 years, for disputes/financial difficulties/suit against seller. Beyond 1 year, total outstanding must not exceed USD 1 million or 10% of average import remittances during preceding 2 FYs, whichever is lower.
Foreign exchange brought into India	No declaration needed if total foreign exchange in currency notes/bank notes/travellers cheques does not exceed USD 10,000 equivalent and cash portion alone does not exceed USD 5,000 equivalent.
Indian currency from outside India except Nepal/Bhutan	A resident returning from temporary visit may bring Indian currency notes up to Rs. 25,000.
Indian currency from Nepal/Bhutan	Currency notes of Government of India/RBI may be brought for any amount in denominations up to Rs. 100.
Service import guarantee by AD	For service importer other than PSU/Govt department/undertaking: no guarantee exceeding USD 500,000 equivalent. For PSU/Govt department/undertaking: no guarantee exceeding USD 100,000 equivalent

	without prior Ministry of Finance approval.

8. Section 6 - Capital Account Transactions

A capital account transaction alters assets or liabilities across borders. For PRII, even contingent liabilities outside India matter. For PROI, assets/liabilities in India matter. Capital account transactions are permitted only within the class, limit and conditions specified by RBI/Central Government.

Category	Examples from FEMA material
Permissible for PRII - Schedule I	Investment in foreign securities, foreign currency loans raised in India/abroad, transfer of immovable property outside India, guarantees in favour of PROI, export/import/holding currency notes, borrowing from PROI, foreign currency accounts, foreign insurance policy, loans to PROI, remittance of capital assets outside India, derivative contracts.
Permissible for PROI - Schedule II	Investment in India, acquisition/transfer of immovable property in India, guarantees in favour/on behalf of PRII, import/export of currency notes, deposits with PRII, foreign currency accounts in India, remittance of capital assets in India, derivative contracts.
No restriction can be imposed	Drawal for amortisation of loans or depreciation of direct investments in ordinary course of business.
Resident individual capital account drawal	Up to USD 250,000 per financial year under LRS, subject to relevant transaction-specific regulations; no remittance directly/indirectly to FATF non-cooperative countries/territories.
PROI prohibited investments in India	Chit fund business, Nidhi company, agricultural or plantation activities, real estate business or construction of farm houses, trading in TDRs. Real estate business does not include development of townships, construction of residential/commercial premises, roads/bridges and SEBI regulated REITs.
DPRK restriction	PRII cannot undertake prohibited capital account transaction with citizens/residents/entities of Democratic People's Republic of Korea unless specific Central Government approval exists; existing impermissible investments to be closed/liquidated/disposed/settled within 180 days unless approved.

Case link

GIL's equity investment in Singapore subsidiary, corporate guarantee to an overseas lender, acquisition of foreign securities and OPI/ODI decisions are capital account transactions. A foreign investor may invest in townships/commercial premises but not in farmhouses or prohibited real estate business.

9. External Commercial Borrowings - ECB Framework

ECB means commercial loans raised by eligible resident entities from recognised non-resident entities. ECBs must satisfy parameters such as eligible borrower, recognised lender, MAMP, all-in-cost ceiling, end-use, hedging, reporting and route. The parameters apply in totality, not independently.

Parameter	FCY denominated ECB	INR denominated ECB
Currency	Any freely convertible foreign currency.	Indian Rupee.
Forms	Loans including bank loans; floating/fixed rate notes/bonds/debentures other than fully and compulsorily convertible instruments; trade credits beyond 3 years; FCCBs; FCEBs; financial lease.	Loans including bank loans; floating/fixed rate notes/bonds/debentures/preference shares other than fully and compulsorily convertible instruments; trade credits beyond 3 years; financial lease; plain vanilla rupee denominated bonds issued overseas.
Eligible borrowers	All entities eligible for FDI; also Port Trusts, SEZ units, SIDBI and EXIM Bank.	All FCY ECB eligible borrowers plus registered micro-finance entities such as registered not-for-profit companies, societies/trusts/cooperatives and NGOs.
Recognised lenders	Resident of FATF/IOSCO compliant country; multilateral/regional financial institutions where India is member; individuals only if foreign equity holders or subscribing to listed bonds/debentures abroad; foreign branches/subsidiaries of Indian banks only for FCY ECB except FCCB/FCEB.	Same general recognised lender principles, with INR-specific hedging permitted for overseas investors.
General MAMP	3 years.	3 years.
All-in-cost ceiling	Benchmark rate + 500 bps spread.	Benchmark rate + 450 bps.

Other costs	Prepayment charge/penal interest for default/breach not more than 2% over contracted interest on outstanding principal and outside all-in-cost ceiling.	Same.
Change of currency	FCY to any other freely convertible currency or INR is freely permitted.	INR to freely convertible foreign currency is not permitted.

Specific ECB category	MAMP / rule
Manufacturing companies up to USD 50 million equivalent per FY	1 year MAMP.
ECB from foreign equity holder for working capital, general corporate purposes or repayment of Rupee loans	5 years MAMP.
ECB from other than foreign equity holder for working capital/general corporate purposes or NBFC on-lending for same	10 years MAMP.
ECB from other than foreign equity holder for repayment of Rupee loans for capital expenditure or NBFC on-lending for same	7 years MAMP.
ECB for repayment of Rupee loans for purposes other than capital expenditure or NBFC on-lending for same	10 years MAMP.
For categories above b to e	ECB cannot be raised from foreign branches/subsidiaries of Indian banks and prescribed MAMP must be strictly complied with.

ECB exact limit / compliance point	Rule
Automatic route annual limit	Eligible borrowers can raise ECB up to USD 750 million or equivalent per financial year under automatic route.
ECB liability-equity ratio	For FCY ECB from direct foreign equity holder, ECB liability-equity ratio under automatic route cannot exceed 7:1. Not applicable if outstanding ECB including proposed ECB is up to USD 5 million equivalent.
Startup ECB amount	Up to USD 3 million or equivalent per financial year.
Startup MAMP	3 years.
Startup all-in-cost	Mutually agreed between borrower and lender.
Oil Marketing Companies special dispensation	Public sector OMCs can raise ECB for working capital with 3-year MAMP, no mandatory hedging/individual limit; overall ceiling USD 10 billion equivalent.
Parking abroad	ECB proceeds for foreign currency expenditure can be parked abroad in specified liquid assets pending utilisation.
Parking domestically	ECB proceeds for Rupee expenditure to be repatriated immediately; may be parked in term deposits with AD Category-I banks in India for maximum 12 months cumulatively in unencumbered position.
LRN	Drawdown only after obtaining Loan Registration Number from RBI.
Change reporting	Changes in ECB parameters to DSIM through revised Form ECB at earliest, not later than 7 days from change.
Monthly reporting	Form ECB-2 Return monthly through AD Category-I bank to reach DSIM within 7 working days from close of month.
Untraceable entity trigger	Failure to submit ECB returns for past 8 quarters or more plus non-responsive for not less than 2 quarters with 6 or more documented communications and non-operative/no statutory auditor certificate for last 2 years or more.

Negative end-use list

ECB proceeds cannot be used for real estate activities, capital market investment, equity investment, working capital/general corporate purposes except specified categories, repayment of Rupee loans except specified categories, and on-lending for such activities except specified NBFC cases.

10. Overseas Investment Rules and Regulations, 2022

The OI framework replaced the earlier ODI and immovable property outside India regulations. OI Rules lay down regulatory permissions, conditions, restrictions, pricing, transfer, liquidation and restructuring. OI Regulations contain operational

conditions, financial commitment, debt investment, mode of payment, obligations, reporting, delay consequences and restrictions on further financial commitment/transfer.

Definition	Meaning / exam impact
Control	Right to appoint majority directors or control management/policy decisions, directly/indirectly, including through 10% or more voting rights or any other manner.
Equity capital	Equity shares, perpetual capital, irredeemable instruments or fully and compulsorily convertible non-debt capital contribution.
Financial commitment	Aggregate amount of ODI, debt other than OPI in foreign entity/entities where ODI is made, plus non-fund based facilities to/on behalf of such foreign entities.
Foreign entity	Entity formed/registered/incorporated outside India, including IFSC, with limited liability; limited liability restriction does not apply to strategic sector.
Strategic sector	Energy/natural resources such as oil, gas, coal, mineral ores, submarine cable system, start-ups and any other sector/sub-sector deemed necessary by Central Government.
ODI	Acquisition of unlisted equity capital of foreign entity; subscription to memorandum; investment of 10% or more in paid-up equity of listed foreign entity; or investment with control even below 10%. Once ODI, always ODI even if stake falls below 10% or control is lost.
OPI	Investment other than ODI in foreign securities, but not unlisted debt instruments or securities issued by a person resident in India outside IFSC. OPI in listed equity continues as OPI after delisting until further investment.
Subsidiary / SDS	Entity in which foreign entity has control.

OI rule	Exact provision
Non-applicability	Rules do not apply to investment outside India by financial institution in IFSC; acquisition/transfer out of RFC account; out of foreign currency resources held outside India by person employed in India for specific duration/job not exceeding 3 years; or under Section 6(4).
Rights/bonus	PRII holding foreign equity capital may invest in rights issue or receive bonus shares; rights may be renounced in favour of PRII or PROI.
General prohibition	No PRII shall make/transfer investment or financial commitment outside India except as permitted by Act, rules, regulations or directions.
Bonafide business	Overseas investment must be in foreign entity engaged in bonafide business activity permissible in India and host jurisdiction, directly or through SDS/SPV, subject to limits and conditions.
Pakistan or notified jurisdiction	OI/transfer/swap involving foreign entity in Pakistan or notified jurisdiction requires prior Central Government approval.
NOC requirement	PRII with NPA account, wilful defaulter classification or under investigation by financial service regulator/CBI/ED/SFIO must obtain NOC before financial commitment/disinvestment. If NOC not furnished within 60 days of application, no objection may be presumed.
Pricing	Issue/transfer of equity capital of foreign entity between PRII/PROI must be at arm's length. AD bank must check internationally accepted valuation methodology.
Disinvestment holding period	For ODI disinvestment, transferor must have stayed invested at least 1 year from date of making ODI. Full disinvestment other than liquidation requires no outstanding dues receivable from foreign entity as investor in equity/debt.
Restructuring	Foreign entity incurring losses for previous two years may restructure balance sheet; diminution not exceeding proportionate accumulated losses. If original investment > USD 10 million or diminution > 20% of outstanding dues, certification by registered valuer/corresponding valuer/CPA, dated not more than 6 months before transaction, is required.

Schedule	Who / what
Schedule I	ODI by Indian entity.
Schedule II	OPI by Indian entity.
Schedule III	Overseas investment by resident individual.
Schedule IV	Overseas investment by PRII other than Indian entity and resident individual.
Schedule V	Overseas investment in IFSC by PRII.

ODI / OPI exact limits	Rule
Indian entity financial commitment	Total financial commitment by Indian entity in all foreign entities shall not exceed 400% of its net worth as on date of last audited balance sheet, subject to conditions.
Resident individual OI	Within LRS limit of USD 250,000 per financial year, subject to Schedule III conditions.
Resident individual ODI	May invest by way of ODI in operating foreign entity not engaged in financial services activity and without subsidiary/step-down subsidiary where prescribed.
Employee stock/ESOP/sweat equity	Resident individual may acquire shares/interest under ESOP/employee benefits/sweat equity subject to the OI framework.
Gift/inheritance	Resident individual may acquire foreign securities by gift/inheritance subject to specified conditions; Section 6(4) eligible assets are separately protected.

Case link

GIL's Singapore WOS is ODI. If GIL's net worth is Rs. 128 crore, the 400% limit permits financial commitment up to Rs. 512 crore, matching the case booklet logic. If Arjun invests personally, his limit is the resident individual LRS limit unless Section 6(4) eligible assets are used. If GIL is a wilful defaulter or under ED/SFIO investigation, NOC rules apply before financial commitment/disinvestment.

11. Section 7 - Export of goods and services

Every exporter must furnish to RBI or such authority a declaration containing true and correct material particulars including the amount representing full export value or expected value where full value is not ascertainable. Export regulations require declarations, evidence and realisation.

Export rule / regulation	Exact point
Declaration	Exporter must declare true/correct particulars and full export value or expected value.
Gift exports	Export of goods by way of gift may be made without declaration only where accompanied by declaration/undertaking that value is not more than Rs. 5,00,000.
IEC	Importer-exporter code number allotted by DGFT must be indicated as required.
Payment manner	Unless RBI authorises otherwise, payment for export value is to be received through authorised banking channels in specified manner.
Realisation period	Export value of goods/software/services to be realised and repatriated within 9 months from date of export.
Advance payment against exports	Shipment must be made within 1 year from date of receipt of advance payment. Interest payable on advance cannot exceed 100 basis points above LIBOR/other applicable benchmark as directed by RBI.
Project exports	Project exports require compliance with approved terms and conditions.

Case link

GIL's export advance from Swedish buyer must lead to shipment within one year. Its export proceeds must normally be realised within nine months. Jewellery/sample gift below Rs. 5 lakh can use the gift exemption. Delay is examined under Section 8 as a reasonable steps question, not automatic guilt in every case.

12. Section 8 - Realisation and repatriation of foreign exchange

Where foreign exchange is due or has accrued to a person resident in India, that person must take all reasonable steps to realise and repatriate it to India within the period and manner specified by RBI. The duty is on reasonable steps depending on facts.

Case link

If GIL's buyer becomes financially distressed, GIL should document reminders, legal steps, extension requests and AD communications. The question is whether GIL took reasonable steps, not merely whether money arrived late.

13. Section 9 - Exemptions from realisation and repatriation

Section 9 carves out exceptions where realisation/repatriation rules do not apply in the manner otherwise required, subject to FEMA provisions. Examples include permissible possession/holding and transactions covered by RBI/general permissions. Use this as a support provision: first identify Section 8 obligation, then check whether Section 9 or specific regulations exempt the case.

14. Sections 10 to 12 - Authorised Persons

Authorised persons are the operational gatekeepers of FEMA. They include authorised dealers, money changers, offshore banking units and others authorised by RBI.

Section	Detailed rule
Section 10 - Authorisation	RBI may authorise a person to be known as authorised person to deal in foreign exchange or foreign securities as authorised dealer, money changer, offshore banking unit or in any other manner. Authorisation may be revoked if public interest requires, conditions are not complied with, or the authorised person contravenes FEMA/rules/regulations/directions/orders.
Duties under Section 10	Authorised person must comply with RBI directions, not engage in unauthorised transaction, require declarations/information, and refuse transaction/report matter if suspicious that transaction contravenes FEMA. A person acquiring foreign exchange must use it for declared/permissible purpose.
Section 11 - RBI directions	RBI may issue directions to authorised persons for securing compliance and may require information in such manner as it deems fit.
Section 12 - RBI inspection	RBI may inspect authorised persons to verify correctness of statements/information, obtain information not furnished, and secure compliance with FEMA/rules/regulations/directions.

Case link

GIL's AD bank must verify import documents, IDPMS entries, purpose declarations, ECB reporting and export realisation. If it fails, RBI can issue directions and conduct inspection.

15. Sections 13 to 15 - Contraventions, penalties and compounding

Provision	Exact rule / amount
Section 13 - Penalty	If amount is quantifiable: penalty up to 3 times the sum involved. If amount is not quantifiable: penalty up to Rs. 2,00,000. Continuing contravention: further penalty up to Rs. 5,000 for every day after first day during which contravention continues. Adjudicating Authority may also direct confiscation of currency/security/property and direct bringing back foreign exchange or foreign security/property to India.
Section 14 - Enforcement of orders	If penalty is not paid within 90 days from date of notice for payment, defaulter may be liable to civil imprisonment, subject to procedure.
Section 14A - Recovery of arrears	Recovery may be made by attachment/sale of movable or immovable property, arrest and detention, or appointing receiver, similar to income-tax recovery machinery as applicable.
Section 15 - Compounding	Contravention under Section 13 may be compounded within 180 days from date of receipt of application by Directorate of Enforcement/RBI officer as applicable. Once compounded, no proceeding/inquiry/adjudication continues for that contravention.

16. Sections 16 to 35 - Adjudication and appeals

FEMA gives a complete adjudication and appellate ladder. Always identify who passed the order first.

Stage	Time limit / authority
Adjudicating Authority - Section 16	Central Government appoints officers for adjudication. Complaint should ordinarily be disposed of within 1 year from date of receipt; if not, reasons to be recorded periodically.
Appeal to Special Director (Appeals) - Section 17	Against order of Adjudicating Authority being Assistant Director or Deputy Director of Enforcement. Appeal within 45 days from receipt of order; delay may be condoned for sufficient cause.
Appellate Tribunal - Sections 18-19	Central Government or aggrieved person can appeal against order of Adjudicating Authority other than those under Section 17(1), or against order of Special Director (Appeals). Appeal within 45 days from receipt; delay may be condoned. Tribunal should endeavour to dispose of appeal within 180 days; if not, reasons recorded.

Powers/procedure of Appellate Tribunal - Sections 20-34	Tribunal follows natural justice, has civil court-like powers, can regulate procedure, parties can appear through authorised representatives, orders are executable, civil court jurisdiction is barred in matters Tribunal/Adjudicating Authority can determine.
Appeal to High Court - Section 35	Appeal from Appellate Tribunal to High Court on question of law within 60 days from communication of order; High Court may allow further period not exceeding 60 days for sufficient cause.

Appeal path memory

Assistant Director/Deputy Director order -> Special Director (Appeals) within 45 days -> Appellate Tribunal within 45 days -> High Court within 60 + 60 days on question of law.
Other Adjudicating Authority order -> Appellate Tribunal within 45 days -> High Court within 60 + 60 days on question of law.

17. Sections 36 to 38 - Directorate of Enforcement

Though RBI controls foreign exchange transactions, enforcement of FEMA is entrusted to the Directorate of Enforcement. Section 36 provides for Directorate of Enforcement. Section 37 deals with powers of search, seizure etc. Section 38 permits empowering other officers. The enforcement machinery matters once contravention moves from compliance correction to investigation/adjudication.

18. Sections 39 to 49 - Miscellaneous provisions

Section	Essence
Section 39	Presumption as to documents in certain cases.
Section 40	Central Government may suspend operation of FEMA provisions in specified circumstances/public interest.
Section 41	Central Government may give directions.
Section 42	Contravention by companies: person in charge/responsible and company are guilty, subject to defence of lack of knowledge/due diligence. If consent, connivance or neglect of director/manager/secretary/officer is proved, such person is also guilty. Company includes body corporate, firm or association; director in firm means partner.
Section 43	Death or insolvency: proceedings/recovery can continue as provided against legal representative/estate subject to limits.
Section 44	Bar of legal proceedings for actions done in good faith.
Sections 45-49	Power to remove difficulties, rule/regulation laying and repeal/savings style provisions as applicable in the chapter framework.

Case link

If GIL committed contravention, the company and persons in charge may be liable. A director can defend by proving lack of knowledge or due diligence. If another director consented or was negligent, he is separately exposed. If a contravener dies, recovery/proceedings may continue against estate/legal representative as allowed.

D. Exact Limits, Thresholds, Timelines and Penalties - Master Revision Table

Item	Exact limit / threshold / time
Residential stay	More than 182 days in preceding FY subject to purpose exceptions.
LRS resident individual	USD 250,000 per financial year for permissible current/capital account transactions.
Private visit	Within LRS; Nepal and Bhutan excluded from private visit facility.
Donation by person other than individual	RBI approval if exceeding 1% of foreign exchange earnings of previous 3 FYs or USD 5 million, whichever is less.
Commission to agents abroad for sale of flats/commercial plots in India	RBI approval if exceeding USD 25,000 or 5% of inward remittance, whichever is more.
Consultancy - infrastructure project	RBI approval if remittance exceeds USD 10 million per project.
Consultancy - other services	RBI approval if remittance exceeds USD 1 million per project.
Pre-incorporation expenses reimbursement	RBI approval if exceeding 5% of investment brought into India or USD 100,000, whichever is higher.
Advertisement in foreign print media by State	Govt approval if exceeding USD 10,000 and not for tourism/foreign

Govt/PSU	investment/international bidding.
Sports prize/sponsorship abroad by non-specified sports body	Govt approval if exceeding USD 100,000.
Import payment normal	Within 6 months from shipment.
Import extension by AD	6 months at a time; maximum 3 years. Beyond 1 year outstanding cap USD 1 million or 10% average import remittances of preceding 2 FYs, whichever lower.
Foreign exchange declaration at arrival	No CDF if aggregate forex not over USD 10,000 equivalent and cash portion not over USD 5,000 equivalent.
Indian currency on return from abroad except Nepal/Bhutan	Up to Rs. 25,000.
Indian currency from Nepal/Bhutan	Any amount, denominations up to Rs. 100.
Service import guarantee	USD 500,000 for non-PSU/Govt; USD 100,000 for PSU/Govt without Ministry of Finance approval.
Export proceeds realisation	9 months from date of export.
Advance export shipment	Within 1 year from receipt of advance.
Interest on export advance	Not more than 100 bps above LIBOR/other applicable benchmark.
Gift export declaration exemption	No declaration if value not more than Rs. 5,00,000 with undertaking.
ECB automatic route	USD 750 million or equivalent per FY.
ECB general MAMP	3 years.
ECB manufacturing up to USD 50 million/FY	1 year MAMP.
ECB all-in-cost FCY	Benchmark + 500 bps.
ECB all-in-cost INR	Benchmark + 450 bps.
Prepayment/penal interest on ECB	Not more than 2% over contracted interest on outstanding principal.
ECB liability-equity ratio	7:1 for FCY ECB from direct foreign equity holder; not applicable if all ECB including proposed is up to USD 5 million.
Startup ECB	USD 3 million equivalent per FY; MAMP 3 years.
OMC ECB special ceiling	USD 10 billion equivalent overall.
ECB domestic parking	Term deposit with AD Category-I bank up to 12 months cumulatively.
ECB Form change reporting	Not later than 7 days from change.
ECB-2 monthly return	Within 7 working days from close of month.
ODI by Indian entity	Financial commitment up to 400% of net worth, subject to conditions.
OI NOC deemed no objection	If NOC not furnished within 60 days from application.
OI restructuring valuation certificate	Required where original investment > USD 10 million or diminution > 20% of outstanding dues; certificate not older than 6 months.
FEMA penalty quantifiable	Up to 3 times sum involved.
FEMA penalty not quantifiable	Up to Rs. 2,00,000.
Continuing penalty	Up to Rs. 5,000 per day after first day.
Compounding disposal	Within 180 days from receipt of application.
Penalty payment notice default	90 days non-payment may trigger civil imprisonment process.
Appeal to Special Director	45 days.
Appeal to Appellate Tribunal	45 days.
Appeal to High Court	60 days + further 60 days possible.

E. What-if Scenarios - Apply FEMA Like the Examiner

What if Arjun is an Indian citizen but went to the USA for employment?

Citizenship is irrelevant. Since he went outside India for employment, he becomes PROI from the relevant date.

What if a foreign citizen comes to India for employment?

He can become PRII from the date he comes/stays in India for employment, despite foreign citizenship.

What if GIL imports machinery with 3-month credit?

It remains current account transaction because short-term credit in ordinary course of business is included in current account transaction.

What if import credit becomes 12 months?

Trade credit framework may trigger; normal import settlement is 6 months and deferred payment rules must be checked.

What if gift to daughter abroad is USD 300,000?

For resident individual, LRS limit is USD 250,000 per FY unless a specific exception/approval applies. Gift does not get education/medical/emigration excess exemption merely because recipient is student.

What if Arjun gives rupee gift in India to an NRI?

For the NRI it creates/changes an Indian asset, so it has capital account implications even if gift abroad by remittance may be current account for remitter.

What if GIL pays agent USD 30,000 but it is only 4% of inward remittance?

Threshold is USD 25,000 or 5% whichever is more. If USD 30,000 is below 5% but above USD 25,000, compare with whichever is more; approval needed only if exceeding the higher threshold.

What if GIL sells foreign assets inherited by Arjun and reinvests abroad?

Section 6(4) permits utilisation of eligible assets abroad and income/sale proceeds for fresh investment abroad if funded exclusively from eligible assets and not otherwise contrary to FEMA.

What if export proceeds are delayed due to buyer insolvency?

Section 8 requires reasonable steps; document follow-up and AD/RBI extension rather than assuming automatic penalty.

What if GIL's director says he did not know of contravention?

Under Section 42, defence is possible if contravention was without his knowledge or he exercised due diligence. Consent/connivance/neglect defeats defence.

What if penalty is not paid?

Section 14 enforcement after 90 days from notice can lead to civil imprisonment proceedings; Section 14A recovery mechanisms may apply.

What if order is by Deputy Director?

Appeal first lies to Special Director (Appeals) within 45 days, then Appellate Tribunal, then High Court on question of law.

F. Case Scenario Booklet Integration - Relevant Questions with Answers

Case Scenario 4 - Good Luck Ltd. / LRS, donation, agent commission, residential status

Question focus	Correct answer and reasoning
Education, medical treatment and emigration remittances	Valid without prior RBI approval where excess over USD 250,000 is required by university, medical institute or country of emigration respectively. For ordinary LRS purposes, USD 250,000 per FY applies.
Private visit of USD 20,000	Permissible under LRS without RBI approval because it is within USD 250,000 and private visits are covered, except Nepal/Bhutan.
Ramesh abroad for setting up Taiwan branch	PROI because he went outside India for business/uncertain period.
Donation of USD 100,000 by company with USD 2,000,000 FX earnings	RBI approval required because 1% of previous 3 FY foreign exchange earnings is USD 20,000, lower than USD 5 million, and proposed donation exceeds it.
Agent commission USD 30,000 / 6% for sale of property in India	RBI approval required because it exceeds the applicable threshold of USD 25,000 or 5% of inward remittance, whichever is more.

Case Scenario 5 - Avon Enterprises / Section 6(4), guarantees, prohibited FDI areas

Question focus	Answer logic
Ram's foreign assets acquired while non-resident	He may continue to hold eligible foreign currency, foreign securities or immovable property acquired when he was PROI or inherited from PROI under Section 6(4).
Corporate guarantee to foreign entity	Guarantee by PRII in favour of PROI is a permissible class of capital account transaction but subject to specific RBI directions/conditions.
Foreign investment into townships/commercial complexes/farmhouses	Development of townships/residential/commercial premises/roads/bridges and REITs excluded from prohibited real estate business; construction of farm houses remains prohibited.
Gift abroad beyond LRS	Gift by resident individual is within LRS of USD 250,000 unless approval/exception applies.

Case Scenario 59 - Budapest / lottery, Section 6(4), RFC/EEFC, P&I Club and agent commission

Issue	Answer logic
Student going abroad	Students are generally considered non-residents as per RBI clarification when they go abroad for studies and often work to support stay/study costs.
Remittance out of lottery winnings	Prohibited current account transaction.
Payment from inherited foreign securities to buy foreign flat	Permitted under Section 6(4) if funded from eligible assets acquired/inherited from PROI.
Commission to agent abroad for sale of villa/property	Compare with USD 25,000 or 5% of inward remittance, whichever is higher.
P&I Club membership	Generally Central Government approval, but RFC/EEFC exemptions may remove approval depending on source; Important Points specifically highlight P&I Club exception from EEFC requiring approval.

ICAI Test Your Knowledge - Descriptive Question Digest

TYK question area	Answer framework
Singapore company with Pune HQ printer unit and Dubai branch	Foreign company is PROI. Pune branch owned/controlled by PROI is PRII. Dubai branch controlled by Pune PRII is also PRII.
Lottery winnings and cultural troupe	Lottery remittance prohibited. Cultural tour requires prior approval of Ministry of Human Resource Development / Department of Education and Culture irrespective of amount.
Film star performance abroad and medical treatment	Cultural tour approval needed for performance. Medical treatment abroad can exceed USD 250,000 if required by medical institute without RBI approval.
Gift jewellery export	Export gift declaration not required if value not more than Rs. 5 lakh with undertaking.
Transponder hiring and call-back services	Transponder hiring requires specified Government approval; call-back telephone service payment is prohibited.
Student residential status and study remittance	Apply 182-day + purpose test; student abroad is generally treated as non-resident. Study remittance up to USD 250,000 under LRS, and beyond if university estimate requires.
Medical treatment / kidney transplant	Foreign exchange can be drawn up to medical institute estimate; excess over LRS allowed where required for medical treatment.

G. Important Points PDF + Hemant Notes Integration

- Citizenship is not relevant for FEMA residential status.
- EBU memory rule: Employment, Business/Vocation and Uncertain period. Going out for EBU makes person PROI; coming to India for EBU makes person PRII.
- Capital Account Transactions are prohibited unless specifically permitted; Current Account Transactions are permitted unless specifically prohibited/approval-based.
- Debt instruments are regulated by RBI; non-debt instruments are regulated by Central Government.
- Import with short-term credit up to six months is treated as current account transaction.

- Resident individual LRS limit is USD 250,000 per financial year for permissible current and capital account transactions together.
- PROI may invest in development of townships, construction of residential/commercial premises, roads, bridges and REITs, but not farmhouses.
- Declaration is not required for export gifts up to Rs. 5,00,000, subject to undertaking.
- Sale proceeds of exports must generally be realised and repatriated within nine months.
- Compounding disposal target is 180 days from receipt of application by ED/RBI authority.
- Appeal path and timelines must be written precisely: 45 days to Special Director where applicable, 45 days to Appellate Tribunal, 60 + 60 days to High Court on question of law.

H. Examiner Traps and Last-Day Revision

Trap	Correct response
Calling import of machinery a capital account transaction because machinery is fixed asset	Wrong. Under FEMA, classify by cross-border asset/liability alteration. Ordinary import payment/short-term credit is current account transaction.
Using citizenship to decide residential status	Wrong. FEMA uses stay + purpose + date-based status.
Saying current account transactions are always free	Incomplete. They are free subject to Schedules I/II/III restrictions.
Saying capital account transactions are always banned	Incomplete. They are permitted if specified by RBI/CG and conditions are satisfied.
Ignoring source of funds for foreign assets held by returning resident	Section 6(4) protects assets acquired when PROI or inherited from PROI and eligible assets abroad.
Forgetting Nepal/Bhutan exception	Private visit LRS excludes Nepal and Bhutan. Indian currency from Nepal/Bhutan allowed for any amount only in denominations up to Rs. 100.
Writing prescribed threshold for donations/consultancy/commission	Write exact thresholds: 1%/USD 5m; USD 10m/1m; USD 25,000 or 5%; 5%/USD 100,000.
Missing Section 42 company liability	Company + persons in charge liable; defences available; consent/connivance/neglect makes officer liable.
Confusing compounding and appeal	Compounding regularises contravention; appeals challenge orders. Timelines are different.

I. Answer-Writing Templates

Template 1 - Residential status

First state Section 2(v). Then apply preceding FY 182-day test. Then immediately test purpose: going out for employment/business/uncertain period = PROI; coming to India for employment/business/uncertain period = PRII; coming otherwise = PROI. Conclude status from the relevant date, not merely for full year.

Template 2 - Current vs capital account

Identify whether transaction alters cross-border assets/liabilities. If no, current account. If yes, capital account. Then state rule: current account permitted unless prohibited/approval-based; capital account permitted only if specified. Apply relevant schedule/limit.

Template 3 - Penalty answer

Quote Section 13: up to 3 times amount if quantifiable; up to Rs. 2 lakh if not quantifiable; continuing penalty up to Rs. 5,000 per day. Add confiscation/repatriation direction if relevant. Mention compounding under Section 15 within 180 days if asked.

Template 4 - Appeal answer

Identify adjudicating authority. If Assistant/Deputy Director: appeal to Special Director within 45 days, then Appellate Tribunal within 45 days, then High Court within 60 days + possible 60 days on question of law. If other AA: appeal directly to Appellate Tribunal within 45 days.

J. Complete Section Coverage Checklist

Section	Topic	Coverage status
1	Extent, application and commencement	Covered in detailed notes / master case / revision table
2	Definitions	Covered in detailed notes / master case / revision table
3	Dealing in foreign exchange etc.	Covered in detailed notes / master case / revision table
4	Holding foreign exchange, foreign security, foreign property	Covered in detailed notes / master case / revision table
5	Current account transactions	Covered in detailed notes / master case / revision table
6	Capital account transactions	Covered in detailed notes / master case / revision table
7	Export of goods and services	Covered in detailed notes / master case / revision table
8	Realisation and repatriation	Covered in detailed notes / master case / revision table
9	Exemptions from realisation/repatriation	Covered in detailed notes / master case / revision table
10	Authorised person	Covered in detailed notes / master case / revision table
11	RBI directions to authorised person	Covered in detailed notes / master case / revision table
12	RBI inspection of authorised person	Covered in detailed notes / master case / revision table
13	Penalties	Covered in detailed notes / master case / revision table
14	Enforcement of orders	Covered in detailed notes / master case / revision table
15	Compounding	Covered in detailed notes / master case / revision table
16	Adjudication and appeal framework	Covered in detailed notes / master case / revision table
17	Adjudication and appeal framework	Covered in detailed notes / master case / revision table
18	Adjudication and appeal framework	Covered in detailed notes / master case / revision table
19	Adjudication and appeal framework	Covered in detailed notes / master case / revision table
20	Adjudication and appeal framework	Covered in detailed notes / master case / revision table
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30	Adjudication and appeal framework	Covered in detailed notes / master case / revision table
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32	Adjudication and appeal framework	Covered in detailed notes / master case / revision table
33	Adjudication and appeal framework	Covered in detailed notes / master case / revision table
34	Adjudication and appeal framework	Covered in detailed notes / master case / revision table
35	Adjudication and appeal framework	Covered in detailed notes / master case / revision table
36	Directorate of Enforcement	Covered in detailed notes / master case / revision table
37	Directorate of Enforcement	Covered in detailed notes / master case / revision table
38	Directorate of Enforcement	Covered in detailed notes / master case / revision table
39	Miscellaneous provisions	Covered in detailed notes / master case / revision table
40	Miscellaneous provisions	Covered in detailed notes / master case / revision table
41	Miscellaneous provisions	Covered in detailed notes / master case / revision table
42	Miscellaneous provisions	Covered in detailed notes / master case / revision table
43	Miscellaneous provisions	Covered in detailed notes / master case / revision table
44	Miscellaneous provisions	Covered in detailed notes / master case / revision table
45	Miscellaneous provisions	Covered in detailed notes / master case / revision table
46	Miscellaneous provisions	Covered in detailed notes / master case / revision table
47	Miscellaneous provisions	Covered in detailed notes / master case / revision table
48	Miscellaneous provisions	Covered in detailed notes / master case / revision table
49	Miscellaneous provisions	Covered in detailed notes / master case / revision table

K. Source Restriction Note

This document is based only on the uploaded ICAI FEMA chapter, the uploaded Case Scenario Booklet, the uploaded Important Points PDF and available uploaded Hemant material. No external web research has been used.

Insolvency and Bankruptcy Code, 2016

Comprehensive Chapter 1-style Notes with Master Mega Case Study, Process Flow, Exact Limits, Penalties and Case Practice

Sources restricted to your uploaded material only: ICAI IBC chapter, Case Scenario Booklet, SPOM Set A All Important Points PDF, and Hemant Somani SPOM Law notes.

How to use this document

- First read the master mega case study. It is intentionally written like a continuous story so that every provision of IBC is triggered by facts rather than memorised in isolation.
- Then read the one-page process section. It connects every stage of IBC with the relevant section and exact timeline.
- Then go through the section-wise notes. Each provision is explained in exam language and linked back to the master case wherever possible.
- Finally revise the penalty matrix, threshold chart, case scenario booklet questions and Test Your Knowledge digest.

A. Master Mega Integrated Case Study - The Insolvency Journey of Sahashtravali Infrastructure Limited

Sahashtravali Infrastructure Limited (SIL) is a public company engaged in real estate development, infrastructure contracts and equipment leasing. SIL has a large housing project named Kailash Niwas, term loans from Delta Finance Bank, unpaid supplier bills due to Zeta Steel Traders, statutory dues, workmen dues, and a non-fund based guarantee facility. Its promoters also gave personal guarantees to Delta Finance Bank. The company is not a bank, insurance company or financial service provider. However, one group entity is an NBFC with assets of Rs. 600 crore as per the last audited balance sheet.

Due to cost escalation and mismanagement, SIL defaults in repayment of financial debt exceeding Rs. 1 crore. Several homebuyers/allottees in Kailash Niwas also claim financial debt. Zeta Steel Traders supplies steel and raises invoices but SIL refuses to pay, alleging defective steel and pending arbitration. The Board of SIL considers filing its own application because the business is stressed but not completely dead. Meanwhile, an MSME subsidiary wants to explore pre-packaged insolvency resolution process. Another small unlisted group company with assets below Rs. 1 crore wants a faster route.

Delta Finance Bank files an application under Section 7 with proof of default from the information utility and proposes Ms. Asha as IRP. The allottees discuss filing a joint Section 7 application, but they must satisfy the minimum threshold of 100 allottees or 10% of the total allottees in the same real estate project, whichever is less. Zeta Steel Traders first sends a Section 8 demand notice and copy of invoice; SIL replies within 10 days, citing a pre-existing arbitration dispute. SIL's Board also debates filing under Section 10, but remembers that a special resolution of shareholders or resolution of at least three-fourths partners is required for a corporate applicant filing.

NCLT admits the Section 7 application. From the date of admission, the insolvency commencement date begins. The promoters lose control because the powers of the Board stand suspended and vest in the IRP. NCLT declares moratorium, causes public announcement, and appoints IRP. A pending arbitration, a SARFAESI repossession attempt by Delta Finance, and a landlord's recovery of leased equipment are stayed. However, current dues for critical supplies during moratorium must be paid; if not paid, the protection for those supplies may not continue. The moratorium does not prevent proceedings against the surety/personal guarantors.

The IRP collects information, takes custody and control of assets, accesses accounts and records, receives claims, verifies them, and constitutes the CoC. Financial creditors form the CoC. Operational creditors may attend if their aggregate dues are at least 10% of total debt but they do not vote. If there were no financial creditors, the committee would consist of 18 largest operational creditors by value, or all operational creditors if fewer than 18, plus one representative elected by all workmen and one by all employees.

The first CoC meeting must be held within 7 days of constitution of the CoC. CoC may continue the IRP as RP or replace her with another RP by at least 66% voting share. In meetings, general decisions require 51%, but key actions such as extension of CIRP, appointment or replacement of RP, approval of RP actions under Section 28, approval of resolution plan and decision to liquidate require 66%. Withdrawal after admission requires 90% CoC voting share under Section 12A.

The RP prepares the information memorandum, appoints registered valuers, invites expression of interest, issues request for resolution plan and evaluation matrix, and presents eligible resolution plans to the CoC. One promoter group entity submits a plan, but Section 29A is checked: wilful defaulter status, NPA classification, conviction, director disqualification, SEBI prohibition, involvement in avoidance transactions, invoked unpaid guarantee, foreign disability and connected-person disqualification are examined. If the applicant is disqualified, the plan is not considered.

A resolution applicant proposes to take over SIL as a going concern, pay CIRP costs in priority, give operational creditors at least the required amount, preserve employees, and restructure debt. If Competition Act Section 5 is attracted, CCI approval must be obtained before CoC approval. The CoC approves the plan by 66% voting share. NCLT then checks compliance with Section 30(2). Upon NCLT approval under Section 31, the plan becomes binding on the corporate debtor, its employees, members, creditors, guarantors and other stakeholders. Required statutory approvals must be obtained within 1 year from NCLT approval or within the period provided under the relevant law, whichever is later.

If the plan results in change in management/control to a person who is not a promoter/management/related party and not involved in the earlier offence, Section 32A protects the corporate debtor from prosecution for prior offences from the date of plan approval. However, officers in default, designated partners, persons in charge and persons involved in the offence remain liable. The corporate debtor must still cooperate with investigating authorities for past offences.

Alternative route: if no plan is received within 180 days plus valid extension, if NCLT rejects the plan, if CoC by 66% votes decides liquidation before plan confirmation, or if an approved plan is later contravened and a prejudiced person applies, NCLT orders liquidation under Section 33. The liquidation order triggers a public announcement, is sent to the registration authority, operates as a bar on suits subject to Section 52, and is deemed notice of discharge to officers, employees and workmen unless business is continued during liquidation.

Liquidation proceeds are distributed under Section 53 waterfall: first insolvency resolution process costs and liquidation costs; then workmen dues for 24 months and secured creditors who relinquish security; then unpaid employee dues for 12 months; then unsecured financial creditors; then Government dues for 2 years and secured creditors for unpaid amounts after enforcing security; then remaining debts; then preference shareholders; and finally equity shareholders or partners. Section 238 gives overriding effect, so statutory first charge under other laws does not override the IBC waterfall.

If the stressed group entity is a small company, start-up, or unlisted company with assets not exceeding Rs. 1 crore, fast track CIRP under Sections 55 to 58 may apply: 90 days with one extension up to 45 days. If a solvent corporate person has not committed default and wants to close itself, voluntary liquidation under Section 59 applies instead. If personal guarantors of SIL are proceeded against, the NCLT/NCLAT route applies because of their intrinsic connection with the corporate debtor.

Provision trigger map from the mega case

Case fact	Provision triggered	Result / memory hook
Default by SIL exceeding Rs. 1 crore	Sections 4 and 6	CIRP threshold and trigger arise; FC, OC or corporate applicant can initiate.
Financial creditor files directly	Section 7	No demand notice required; default is checked from IU/other evidence.
Operational creditor has unpaid invoice	Sections 8 and 9	Demand notice first; 10-day window for payment or dispute.
Corporate debtor wants to file itself	Section 10	Corporate applicant filing with books, IRP name and special resolution/three-fourths partner approval.
COVID-period default	Section 10A	No application ever for defaults arising during notified suspended period.
MSME subsidiary wants pre-pack	Sections 54A to 54P / 11A	PPIRP application priority rules vis-a-vis Sections 7/9/10.
Admission by NCLT	Sections 13 to 16	Moratorium, public announcement and IRP appointment.
Promoters lose control	Sections 17 to 20	IRP takes over management and keeps CD as going concern.
Claims and CoC	Sections 18 and 21	Claims collated, CoC constituted, voting based on financial debt.
CoC decisions	Sections 12, 12A, 22, 27, 28, 30, 33	51%, 66%, 90% voting thresholds become critical.
Ineligible promoter plan	Section 29A	Disqualified persons cannot submit resolution plan.
Resolution plan approval	Sections 30 and 31	Plan must satisfy statutory contents and becomes binding after NCLT approval.
Prior offences	Section 32A	Corporate debtor immunity if control changes to eligible person; wrongdoers remain liable.
CIRP failure	Section 33	Liquidation follows; no direct liquidation without CIRP in the uploaded material.
Liquidation distribution	Section 53	Waterfall overrides inconsistent claims due to Section 238.
Fast small company case	Sections 55 to 58	90 days plus one extension up to 45 days.
Solvent closure	Section 59	Voluntary liquidation only if no default.

What-if scenarios to complete the case

- What if Zeta Steel had a genuine dispute pending before the demand notice? Then Section 9 application by the operational creditor should not be admitted if the dispute is not spurious, feeble or unsupported.
- What if the Section 7 application is defective? NCLT must give 7 days to rectify defects before rejection; the uploaded case law treats the time as directory, not mandatory.
- What if CoC wants liquidation with only 51% votes? Not valid. Liquidation decision during CIRP requires at least 66% voting share.
- What if CoC wants withdrawal after admission? It requires 90% voting share under Section 12A, and before CoC is constituted, withdrawal may be allowed by NCLT.
- What if the allottees are only 17 out of 96 allottees in the same project? Since 10% of 96 is 9.6 and the threshold is 100 or 10%, whichever is less, 17 satisfies the requirement.

- What if RP sells unencumbered assets during moratorium? It may be possible under the regulations up to the permitted limit, but disposal by the corporate debtor itself during moratorium is prohibited.
- What if the successful resolution applicant is related to old promoters? Section 32A immunity may fail if the new control is with promoter/management/related party or person involved in the offence.
- What if the corporate debtor has no financial creditors? CoC is not blank; it is constituted with operational creditors, workmen and employee representatives as specified.
- What if a personal guarantor argues that corporate debtor plan approval discharges him? The uploaded case law states approval of the plan does not ipso facto discharge the personal guarantor.

B. Whole IBC Process in One Flow - Sections, Triggers and Timelines

Stage	Section / regulation	Exact trigger / timeline / voting
1. Default	Section 3(12), Section 4	Default means non-payment when debt becomes due and payable. Minimum default for CIRP: Rs. 1 crore.
2. Who can file	Section 6	Financial creditor, operational creditor, or corporate debtor/corporate applicant.
3A. Financial creditor route	Section 7	Application with default record, proposed IRP and information. AA to ascertain default within 14 days.
3B. Operational creditor route	Sections 8 and 9	Demand notice/invoice first; corporate debtor gets 10 days to pay or bring dispute to notice. Then Section 9 application.
3C. Corporate applicant route	Section 10	Application with books/documents, proposed IRP, and special resolution or three-fourths partner resolution.
4. Bar/suspension checks	Sections 10A, 11, 11A	COVID default suspension; persons not entitled; PPIRP application priority rules.
5. Admission/rejection	Sections 7, 9, 10	NCLT to admit/reject within 14 days; defects get 7 days for rectification.
6. Commencement	Section 5(12)	Insolvency commencement date = date of admission.
7. NCLT orders	Section 13	Moratorium, public announcement and appointment of IRP.
8. Moratorium	Section 14	Prohibits suits, asset transfer, security enforcement and owner/lessor recovery. Continues until plan approval or liquidation order.
9. Public announcement	Section 15 / regulation	Immediately after IRP appointment; in notes, immediately means within 3 days.
10. IRP	Sections 16 to 20	IRP appointed on insolvency commencement date; manages CD, collects claims, protects going concern.
11. CoC	Section 21	Constituted after claims and financial position; general decisions by at least 51%.
12. First CoC meeting	Section 22 / regulation	Within 7 days of constitution of CoC. CoC appoints/replaces RP by 66%.
13. CoC meetings	Section 24 / regulations	Notice: 5 days; reducible to 24 hours, or 48 hours if authorised representative exists. Quorum: 33%.
14. RP duties	Sections 23, 25, 29	Manage operations, protect assets, prepare information memorandum, invite plans.
15. RP actions needing CoC approval	Section 28	Specified major actions require prior CoC approval by 66%; action without approval is void.
16. Resolution applicant check	Section 29A	Ineligible persons and connected persons cannot submit plan.
17. Resolution plan	Sections 30 and 31	CoC approval by 66%; NCLT approval makes plan binding.
18. CIRP time limit	Section 12	180 days; one extension up to 90 days with 66% CoC vote; mandatory 330 days including litigation time.
19. Withdrawal	Section 12A	After admission, withdrawal requires 90% CoC voting share; before CoC constitution, NCLT can permit.
20. Prior offence immunity	Section 32A	CD immunity if resolution plan approved and management/control changes to eligible person; individuals involved remain liable.
21. Liquidation trigger	Section 33	No plan, rejection, 66% CoC decision, or contravention of approved plan.
22. Liquidation distribution	Section 53	Waterfall: costs, workmen/secured relinquishing, employees, unsecured FCs, government/secured unpaid, remaining debts, preference, equity.
23. Fast track	Sections 55 to 58	Small company/start-up/unlisted company assets <= Rs. 1 crore; 90 days plus one 45-day extension.
24. Voluntary liquidation	Section 59	For corporate person intending to liquidate voluntarily and having committed no default.
25. Appeals	Sections 61 and 62	Appeal to NCLAT within 30 days; condonation up to 15 days. Appeal to Supreme Court on question of law within 45 days.

C. Section-wise Comprehensive Notes

1. Introduction, objectives and nature of IBC

- Insolvency is a state of inability/default in payment. Bankruptcy is the legal conclusion for non-corporates; liquidation is the corporate consequence if resolution fails.
- IBC is not a recovery mechanism. Its object is resolution of the corporate debtor as a going concern; if resolution fails, liquidation follows.
- The Code consolidates earlier fragmented laws and aims at time-bound reorganisation and insolvency resolution, maximisation of value, promotion of entrepreneurship, availability of credit, and balancing stakeholders including government dues.

- Financial failure means mismatch between receivables and payments despite revenue generation. Business failure means the business model itself cannot generate sufficient revenue.
- Avoidance transactions may also cause or worsen insolvency: preferential transactions, undervalued transactions, transactions defrauding creditors, extortionate credit transactions, fraudulent trading and wrongful trading.

2. Structure and applicability - Sections 1 and 2

Part	Sections	Coverage
Part I	1 to 3	Preliminary: short title, extent, commencement, application and definitions.
Part II	4 to 77	Insolvency resolution and liquidation for corporate persons: CIRP, liquidation, PPIRP, fast track, voluntary liquidation, AA and offences.
Part III	78 to 187	Insolvency resolution and bankruptcy for individuals and partnership firms.
Part IV	188 to 223	Regulation of IBBI, insolvency professionals, agencies and information utilities.
Part V	224 to 255	Miscellaneous provisions.

- IBC extends to the whole of India. Different provisions may be brought into force on different dates.
- Applicable to companies under Companies Act, previous company law, companies under special Acts to the extent not inconsistent, LLPs, notified bodies corporate, personal guarantors to corporate debtors, partnership/proprietorship firms and individuals.
- Non-applicability: corporate person excludes financial service providers. However, Central Government can notify FSPs. NBFCs including housing finance companies with asset size of Rs. 500 crore or more as per last audited balance sheet are covered under notified framework.
- Personal guarantors to corporate debtors are treated differently from ordinary individuals because of their intrinsic connection with the corporate debtor. NCLT/NCLAT route applies where connected with corporate debtor insolvency/liquidation.

Exam point: Minimum default for CIRP is Rs. 1 crore. The uploaded important-points material also flags that for MSMEs a lower threshold of Rs. 10 lakh is relevant for the pre-packaged insolvency resolution process route.

3. Foundation of IBC - the four pillars

Pillar	Institution	Role
1	Adjudicating Authority	NCLT for corporate insolvency and liquidation; NCLAT as appellate authority.
2	IBBI	Regulator for insolvency professionals, agencies, registered valuers and information utilities.
3	Insolvency Professionals / Agencies	IPs conduct CIRP/liquidation; IPAs regulate professional standards and code of ethics.
4	Information Utilities	Electronically store, authenticate and disseminate financial information used in proceedings.

4. Important definitions - Sections 3 and 5

Term	Section	Meaning / exam relevance
Board	3(1)	Insolvency and Bankruptcy Board of India established under Section 188.
Claim	3(6)	Right to payment or remedy for breach of contract giving rise to payment, whether disputed/undisputed, secured/unsecured, matured/unmatured.
Corporate person	3(7)	Company, LLP or other limited liability entity; excludes financial service provider.
Corporate debtor	3(8)	Corporate person who owes a debt to any person.
Creditor	3(10)	Person to whom debt is owed; includes FC, OC, secured/unsecured creditor and decree holder.
Debt	3(11)	Liability or obligation in respect of a claim due from any person; includes financial and operational debt.
Default	3(12)	Non-payment when debt or instalment has become due and payable and is not paid.
Financial debt	5(8)	Debt disbursed against consideration for time value of money, including borrowing, bonds, finance lease, receivables discounting, real estate allottee amounts, derivatives, guarantees etc.
Operational debt	5(21)	Claim in respect of goods/services including employment, or dues payable to CG/SG/local authority.
Financial creditor	5(7)	Person to whom financial debt is owed, including assignee/transferee.
Operational creditor	5(20)	Person to whom operational debt is owed, including assignee/transferee.
Insolvency commencement date	5(12)	Date of admission of application under Section 7, 9 or 10.
IRP period	5(14)	180 days from insolvency commencement date.
Liquidation commencement date	5(17)	Date liquidation commences under Section 33 or voluntary liquidation under Section 59.
Resolution plan	5(26)	Plan for insolvency resolution of corporate debtor as going concern; may include merger, amalgamation or demerger.
Voting share	5(28)	Voting right of a financial creditor based on proportion of financial debt owed to that creditor.

5. CIRP overview - Sections 4, 6 to 32 and 32A

- CIRP is a collective mechanism for creditors to evaluate whether the debtor can be revived as a going concern or should move into liquidation.
- The process begins with default and admission of application. Control shifts from the board/promoters to IRP/RP. CoC evaluates resolution plans.

- The process must ordinarily be completed in 180 days. It may be extended once by up to 90 days if CoC resolves by 66% and NCLT approves. Overall mandatory limit is 330 days including extensions and litigation time, subject to exceptional judicial relief noted in case law.
- Fast-track corporate insolvency is separately available for specified smaller corporate persons with a 90-day timeline and 45-day extension.

Section 4 - Minimum default

- CIRP and liquidation provisions apply when the default amount is at least Rs. 1 crore.
- The Central Government can specify a higher value not exceeding Rs. 1 crore for ordinary CIRP; for PPIRP, separate threshold notification may apply.

Section 6 - Persons who may initiate CIRP

- On default by corporate debtor, CIRP may be initiated by financial creditor, operational creditor or corporate debtor itself through corporate applicant.
- Each route has a distinct filing process, documents and defenses.

Section 7 - Financial creditor route

- A financial creditor may file by itself, jointly with other financial creditors, or through notified persons on behalf of the financial creditor.
- For financial creditors in a class and real estate allottees, application must be filed jointly by at least 100 creditors/allottees or 10% of total number in the same class/project, whichever is less.
- Default includes default owed not only to the applicant financial creditor but also to any other financial creditor of the corporate debtor.
- Application must include record of default from information utility or other evidence, name of proposed IRP, and specified information. Copy is sent to the registered office of corporate debtor and to IBBI before filing.
- NCLT ascertains default within 14 days. Before rejecting for defect, NCLT gives 7 days to rectify. The timeline is treated as directory in the uploaded case law.

Sections 8 and 9 - Operational creditor route

- Operational creditor cannot directly file without first sending a demand notice and copy of invoice.
- Corporate debtor has 10 days from receipt to show: (a) existence of dispute and record of pending suit/arbitration filed before receipt of notice; or (b) payment of unpaid operational debt with proof.
- If no payment or valid dispute is received within 10 days, operational creditor may file Section 9 application.
- Documents include invoice/demand notice, affidavit of no dispute notice, certificate/record/proof of no payment and other prescribed information.
- Operational creditor may propose an IRP. If no IRP is proposed, NCLT refers to IBBI, which recommends a name within 10 days.

Exam point: Mobilox principle from uploaded material: if a real dispute exists, the Section 9 application is not to be admitted; the dispute should not be a feeble legal argument, unsupported assertion, spurious, mere bluster, plainly frivolous or vexatious.

Section 10 - Corporate applicant route

- Corporate debtor can initiate its own CIRP through corporate applicant when it has committed default.
- Corporate applicant includes the corporate debtor, authorised member/partner, individual managing operations/resources, or person controlling/supervising financial affairs.
- Application must include books of account and documents for specified period, proposed IRP, and special resolution of shareholders or resolution by at least three-fourths of total partners approving the filing.
- NCLT admits if complete and no disciplinary proceedings are pending against proposed RP; otherwise, it may reject after giving 7 days to rectify defects.

Section 10A - COVID suspension

- No application under Sections 7, 9 or 10 can be filed for default arising on or after 25 March 2020 for the suspended period; no application shall ever be filed for such default occurring during that period.
- The provision does not apply to defaults committed before 25 March 2020. Uploaded notes state the suspension was extended and applied up to 25 March 2021.

Section 11 - Persons not entitled to initiate CIRP

- Corporate debtor undergoing CIRP or PPIRP cannot initiate CIRP.
- Financial creditor or operational creditor of a corporate debtor undergoing PPIRP cannot initiate CIRP against that same debtor during PPIRP.
- Corporate debtor having completed CIRP within 12 months before application cannot initiate.

- Corporate debtor for whom resolution plan under PPIRP was approved within preceding 12 months cannot initiate.
- Corporate debtor or financial creditor who violated terms of resolution plan approved 12 months before application cannot initiate.
- Corporate debtor in respect of whom liquidation order has been made cannot initiate.
- Clarification: these restrictions do not prevent such corporate debtor from initiating CIRP against another corporate debtor.

Section 11A - Priority between PPIRP and Sections 7/9/10

Situation	Application decided first
Section 54C application pending and Section 7/9/10 also pending	NCLT first admits/rejects Section 54C application.
Section 54C filed within 14 days of pending Section 7/9/10 application	NCLT first disposes Section 54C application.
Section 54C filed after 14 days of Section 7/9/10 application	NCLT first disposes Section 7/9/10 application.
Section 7/9/10 pending as on commencement of 2021 Ordinance	Section 11A priority rule does not apply.

Section 12 - Time limit for CIRP

- CIRP must be completed within 180 days from admission.
- RP files extension application if instructed by CoC through at least 66% voting share.
- Extension can be up to 90 days and cannot be granted more than once.
- Mandatory outer period is 330 days from insolvency commencement date, including extension and time taken in legal proceedings.

Section 12A - Withdrawal

- Before admission: application can be withdrawn with permission of NCLT.
- After admission but before CoC constitution: applicant may approach NCLT through IRP.
- After CoC constitution: withdrawal requires CoC approval by 90% voting share. RP submits the application to NCLT within the prescribed manner/time.
- After issue of invitation for EOI: reasons justifying withdrawal must be stated, and CoC/NCLT approval procedure applies.

Sections 13 to 15 - Moratorium and public announcement

- On admission, NCLT declares moratorium, causes public announcement, calls for submission of claims and appoints IRP.
- Moratorium prohibits: institution/continuation of suits/proceedings including execution; transfer/encumbrance/disposal of assets; security enforcement including SARFAESI; and recovery of property by owner/lessor where occupied or possessed by corporate debtor.
- Government licences, permits, registrations, quota, concession, clearance or similar grants are not suspended/terminated merely on insolvency grounds if current dues for their use/continuation during moratorium are paid.
- Essential goods/services and critical supplies needed to preserve value and run the corporate debtor as going concern are protected, except where current moratorium-period dues are unpaid or specified circumstances apply.
- Moratorium does not apply to notified transactions and does not apply to a surety in a contract of guarantee to a corporate debtor.
- Public announcement must contain name/address of corporate debtor, registration authority, IRP details, penalties for false/misleading claims, last date for claims and date on which CIRP ends.

Sections 16 to 20 - IRP appointment, management and duties

- IRP is appointed on insolvency commencement date. If financial creditor/corporate debtor proposes an IP and no disciplinary proceeding is pending, that person is appointed.
- If operational creditor does not propose IRP, NCLT seeks IBBI recommendation; IBBI recommends within 10 days.
- Term of IRP continues until appointment of RP under Section 22.
- From IRP appointment, management of corporate debtor vests in IRP, powers of board/partners are suspended, officers/managers report to IRP, and banks act on IRP instructions.
- IRP collects information, receives and collates claims, constitutes CoC, monitors assets, takes control/custody, files information with IU and protects the going concern.
- IRP can appoint professionals, enter/amend contracts, raise interim finance, issue instructions to personnel and take actions necessary to keep the corporate debtor as going concern.

Claims process

- Creditors submit claims with proof by last date in public announcement.
- IRP verifies claims within 7 days from last date of receipt of claims and files report certifying CoC constitution within 2 days of verification.
- A creditor who misses the original deadline may submit proof on or before the 90th day of insolvency commencement date.
- Forms: Financial creditors use Form C, operational creditors use Form B, and workmen/employees use Form D as per uploaded notes.

Sections 21, 24 and 25A - CoC and voting

- CoC generally comprises all financial creditors. Related party financial creditors have no representation, participation or voting right, subject to exceptions for regulated financial entities related solely due to debt-equity conversion/substitution before insolvency commencement.
- If a creditor has both financial and operational debt, it participates as FC to the extent of financial debt and is treated as OC to the extent of operational debt.
- If an operational debt is assigned to a financial creditor, the assignee is treated as operational creditor to that extent.
- In consortium/syndicated debt, each creditor may act through trustee/agent, represent itself, appoint another IP at own cost, or vote jointly/severally as permitted.
- Authorised representative attends CoC and votes based on prior instructions of creditors in class. If creditor gives no instruction, representative abstains for that creditor.
- All general decisions of CoC require not less than 51% voting share, unless the Code requires a higher threshold.
- If CoC asks RP for financial information, RP must provide it within 7 days.

CoC item	Exact rule
First meeting	Within 7 days of CoC constitution.
Meeting interval	Before lapse of 30 days from last meeting; CoC may extend but at least one meeting each quarter.
Meeting on request	RP convenes if requested by members representing 33% voting rights.
Notice	5 days; may be reduced to at least 24 hours, or 48 hours where authorised representative exists.
Quorum	33% voting rights present personally or electronically; adjourned meeting quorates with attending members.
Operational creditor attendance	Allowed if aggregate dues are not less than 10% of debt, but no voting rights.

Section 22 and 27 - Appointment and replacement of RP

- At first CoC meeting, CoC by at least 66% voting share resolves to appoint IRP as RP or replace IRP with another RP.
- If replacing, proposed RP name and written consent are sent to NCLT; NCLT forwards to IBBI for confirmation.
- If IBBI does not confirm within 10 days, IRP continues until confirmation.
- At any time during CIRP, CoC may replace RP by at least 66% voting share. Existing RP continues if disciplinary proceedings are pending against proposed RP.

Section 23 and 25 - RP role and duties

- RP conducts the entire CIRP and manages operations during CIRP. RP continues to manage after expiry of CIRP period until NCLT approves plan under Section 31 or appoints liquidator under Section 34.
- RP takes custody/control of assets and records, represents corporate debtor, raises interim finance with CoC approval, appoints professionals, maintains claim list, convenes CoC, prepares IM, invites eligible resolution applicants, presents plans, and files avoidance applications.

Section 28 - Actions requiring prior CoC approval

- RP cannot raise interim finance beyond CoC-decided amount, create security interest, change capital structure, record ownership change, debit bank accounts beyond approved amount, undertake related party transactions, amend constitutional documents, delegate authority, dispose shareholder shares, change management of CD/subsidiary, transfer material contract rights/debts, change specified personnel terms, or change statutory/internal auditors without CoC approval.
- Approval requires 66% voting share. Action without approval is void and may be reported to IBBI.

Section 29 - Information memorandum

- RP prepares information memorandum containing relevant information for formulating resolution plan.
- Resolution applicant gets access to information only after undertaking confidentiality, legal compliance including insider trading, protection of intellectual property, and no third-party sharing unless conditions are complied with.

Section 29A - Ineligible resolution applicants

- Ineligible if undischarged insolvent, wilful defaulter, NPA account with at least one year from classification till CIRP commencement unless overdue amounts with interest and charges are paid before plan submission, or convicted for specified offences.
- Conviction disqualification applies for offences punishable with 2 years or more under Twelfth Schedule Acts or 7 years or more under other laws; one important note says eligibility may return after 2 years from release, while >7 years conviction is flagged as never eligible in important points.
- Also ineligible if disqualified as director under Companies Act, prohibited by SEBI from trading/accessing securities market, involved in avoidance transactions with AA order, invoked guarantee remains unpaid, has corresponding foreign disability, or has connected person ineligible.

- Connected person includes promoter/management/control of resolution applicant, person who will be promoter/management/control of CD during plan implementation, and holding/subsidiary/associate/related party of such persons, subject to financial entity carve-outs.

Sections 30 and 31 - Resolution plan approval

- Resolution applicant prepares plan on basis of information memorandum.
- RP examines each plan to ensure it provides for payment of CIRP costs in priority, payment to operational creditors at least as required, management of corporate debtor after approval, implementation/supervision, no contravention of law, and conformity with Board criteria.
- If Section 5 of Competition Act applies, CCI approval must be obtained before CoC approval.
- CoC may approve resolution plan by at least 66% voting share after considering feasibility, viability and distribution. CoC may approve plan after recording reasons even where plan value is lower/higher than liquidation value as per its commercial wisdom.
- NCLT approves if satisfied plan meets requirements. Approved plan is binding on corporate debtor, employees, members, creditors including government/local authorities, guarantors and other stakeholders.
- If plan is rejected or not received within time, liquidation may follow.
- Approvals required under other laws must be obtained within 1 year from NCLT approval or within the period provided in such law, whichever is later.

Section 32A - Liability for prior offences

- Corporate debtor is not liable for prior offences from date of resolution plan approval if offence was committed before insolvency commencement date and the plan results in change in management/control to an eligible person.
- Eligible new management/control must not be promoter/management/related party of such persons and must not be a person against whom investigating authority has material/reason to believe involvement and submitted report.
- If prosecution had already started, corporate debtor stands discharged if conditions are satisfied.
- Designated partner, officer in default, person in charge/responsible and involved persons continue to be liable.
- Property of corporate debtor covered by approved plan or liquidation sale is protected from action for past offences if control/acquirer conditions are satisfied, but action may continue against other persons and their property.
- Corporate debtor and persons must continue to assist/cooperate with investigating authorities.

6. Liquidation process - Sections 33 to 54

- Liquidation is triggered only after CIRP route fails or CoC chooses liquidation. Uploaded material states there is no direct liquidation without undergoing CIRP.
- NCLT orders liquidation if no resolution plan is received before expiry of CIRP/maximum period/fast-track period, or if plan is rejected for non-compliance.
- NCLT also orders liquidation if RP communicates CoC decision approved by at least 66% voting share to liquidate any time during CIRP before plan confirmation.
- If approved plan under Section 31 or 54L is contravened, any prejudicially affected person other than corporate debtor can apply for liquidation; NCLT orders liquidation if contravention is determined.
- On liquidation order, NCLT passes order requiring liquidation, issues public announcement, and sends the order to the registration authority.
- Subject to Section 52, no suit or proceeding is instituted by or against corporate debtor; liquidator may institute proceedings on behalf of corporate debtor with prior NCLT approval.
- Liquidation order is deemed notice of discharge to officers, employees and workmen, except when business is continued during liquidation.

Section 53 priority	Who gets paid
1	Insolvency resolution process costs and liquidation costs.
2	Workmen dues for 24 months preceding liquidation commencement date and debts owed to secured creditors who relinquish security.
3	Wages and unpaid dues owed to employees other than workmen for 12 months preceding liquidation commencement date.
4	Financial debts owed to unsecured creditors.
5	Government dues for 2 years and unpaid amounts to secured creditors who enforced security.
6	Any remaining debts and dues.
7	Preference shareholders.
8	Equity shareholders or partners.

Exam point: Section 238 overriding effect means the IBC waterfall prevails over inconsistent statutory first-charge provisions in other laws, including tax laws, as explained in the uploaded material.

Avoidance transactions and wrongful trading

- Preferential transactions: Sections 43 and 44. Uploaded important points: look-back is 2 years for related parties and 1 year for others before CIRP commencement.

- Undervalued transactions: Sections 45 to 48.
- Transactions defrauding creditors: Section 49.
- Extortionate credit transactions: Sections 50 and 51.
- Fraudulent trading or wrongful trading: Sections 66 and 67.
- IRP/RP/liquidator forms opinion, determines avoidance transactions and files petition before NCLT. Uploaded case law says Regulation 35A timeline for approaching AA by 135th day is directory, not mandatory.

7. Fast Track CIRP - Sections 55 to 58

Applicability	Timeline	Extension
Small companies, start-ups, and unlisted companies with total assets not exceeding Rs. 1 crore.	90 days.	One-time extension up to 45 days. Important-points PDF says 75% voting share; Hemant notes emphasise one extension only.

Exam point: If even a 10-day extension is granted once, another extension is not available as per Hemant notes memory point.

8. Voluntary liquidation - Section 59

- Applies to a corporate person that intends to liquidate itself voluntarily and has not committed any default.
- Different from liquidation under Section 33, which follows CIRP failure or CoC decision/plan contravention.
- Liquidation commencement date includes date of proceedings under Section 33 or Section 59.

9. Personal guarantors, individuals and firms - Part III overview

- Part III covers insolvency resolution and bankruptcy for individuals and partnership firms.
- DRT is generally the adjudicating authority and DRAT appellate authority for individuals/firms.
- For personal guarantors to corporate debtors, NCLT/NCLAT applies where corporate debtor insolvency/liquidation is pending or connected.
- Flow: insolvency resolution process is managed by resolution professional; repayment plan is finalised with debtor and creditors; discharge order follows if plan succeeds; if plan fails, bankruptcy may be ordered and trustee administers estate.

10. Adjudicating authority and appeals - Sections 60 to 67

Matter	Authority / period
Corporate persons and personal guarantors connected with CD	NCLT is Adjudicating Authority.
Appeal from NCLT	NCLAT under Section 61 within 30 days; NCLAT may allow further 15 days on sufficient cause.
Appeal from NCLAT	Supreme Court under Section 62 on question of law within 45 days.
Individuals and firms generally	DRT/DRAT route, subject to personal guarantor provisions.
Section 61(3) grounds against plan approval	Contravention of law, material irregularity by RP, OC payment not as specified, CIRP costs not in priority, or non-compliance with Board criteria.

11. Offences and penalties - Sections 68 to 77

- The uploaded chapter lists Part II as containing offences and penalties for corporate persons. Revise offences as consequences of false information, concealment, fraud, misconduct in CIRP/liquidation, and contravention of orders/process duties.
- False or misleading claims are expressly flagged in public announcement particulars; penalties for false or misleading claims must be included in the public announcement.
- For exam writing, link offence questions to: who made the statement/claim, whether there was knowledge/intent, which proceeding was affected, and whether the consequence is penalty/prosecution/disqualification/voidness.

12. Exact limits and thresholds master chart

Limit / number	Where used
Rs. 1 crore	Minimum default for CIRP.
100 or 10%, whichever is less	Minimum allottees/financial creditors in a class for Section 7 class application.
14 days	AA to ascertain default/admit/reject applications under Sections 7/9/10.
7 days	Defect rectification before rejection; communication of order; first CoC meeting within 7 days of constitution; claim verification after last claim date.
10 days	Operational debtor reply to Section 8 notice; IBBI recommendation where NCLT seeks IRP/RP name.
3 days	Public announcement from IRP appointment; Form CIRP 7 first filing after due date for delayed activity.
180 days	Normal CIRP completion period.
90 days	One CIRP extension; also creditor can submit late claim up to 90th day of ICD.
330 days	Outer CIRP completion period including extension and legal proceedings.
66%	Major CoC approvals: extension, RP appointment/replacement, Section 28 actions, resolution plan, liquidation decision.

90%	Withdrawal under Section 12A after admission.
51%	General CoC decisions.
33%	CoC quorum; CoC meeting request threshold.
5 days	Normal notice for CoC meeting.
24 hours / 48 hours	Reduced CoC notice; 48 hours where authorised representative exists.
10% of debt	Operational creditors may attend CoC meeting if aggregate dues not less than 10% of debt.
18 largest OCs	CoC where no financial creditors.
24 months	Workmen dues in Section 53 waterfall.
12 months	Employee dues in Section 53 waterfall; Section 11 look-back for completed CIRP/approved PPIRP plan/violated plan.
2 years / 1 year	Preferential transaction look-back for related parties / others.
90 days + 45 days	Fast Track CIRP timeline and one-time extension.

13. Case Scenario Booklet integration - relevant IBC case practice

Case Scenario: Sahashtravali / Kailash Niwas type real estate CIRP

- Corporate debtor: Sahashtravali Private Limited. Financial creditors include allottees and secured lenders. Operational creditors include raw-material suppliers.
- For allottees under a real estate project, the Section 7 application must satisfy 100 allottees or 10% of total allottees, whichever is less. In the case booklet-style question where total allottees were 96 and 17 filed, 10% of 96 is 9.6; 17 satisfies the threshold.
- If NCLT rejected the application as defective because proposed IRP name was not provided, this follows the requirement that a financial creditor must provide proposed IRP details with application.
- If Mr. Achyutam was employee/proprietor/partner of secretarial auditors of the corporate debtor in the last three financial years, he is ineligible as IRP/RP under independence requirements.
- Form CIRP 7 is required when specified activities are delayed: public announcement by T+3, RP appointment by T+30, information memorandum within 92 days from public announcement, RFRP within 10 days of IM issue, or CIRP completion by T+180.
- If a resolution plan was approved for the corporate debtor within 12 months preceding a fresh application, Section 11 restriction may bar initiation by the corporate debtor/creditor as applicable in the fact pattern.

Case Scenario: Moratorium and asset recovery

- Pending arbitration against the corporate debtor is stayed during moratorium.
- IRP takes control of the company and manages operations during CIRP.
- A secured lender/lessor cannot repossess machinery or enforce security during moratorium in violation of Section 14.
- Moratorium ends when NCLT approves resolution plan or passes liquidation order.

ICAI Test Your Knowledge digest

Question theme	Answer framework
Appeal against NCLT admission order	Appeal to NCLAT under Section 61 within 30 days from date of order; condonation up to 15 days on sufficient cause.
Identify corporate debtor	Corporate person who owes debt and has defaulted; in given balance-sheet type case, the distressed company itself is corporate debtor.
CoC liquidation vote with 51%	Invalid. Liquidation decision requires 66% voting share.
Operational creditor altering claim in liquidation	Use specific liquidation regulation if asked; distinguish CIRP claim submission rules from liquidation claim alteration rules.
Applicability of insolvency/liquidation provisions	Applies to corporate persons covered by Section 2 when default meets threshold; excludes FSP unless notified.
IRP/RP eligibility	Must be independent of corporate debtor; not related party; not auditor/secretarial/cost auditor firm employee/proprietor/partner in last 3 FY; not legal/consulting firm employee/proprietor/partner with 5%+ gross turnover transaction in last 3 FY.
Effect of moratorium	Stay on suits/proceedings, transfer/disposal, security enforcement and owner/lessor recovery; essential/critical supplies protected subject to current dues.

14. Answer-writing templates

Template: Section 7 financial creditor application

1. State default and minimum threshold under Section 4.
2. Identify applicant as financial creditor and debt as financial debt under Section 5(8).
3. Mention application before NCLT with record of default/IU evidence, proposed IRP and specified information.
4. Mention 14-day ascertainment by AA and 7-day defect rectification opportunity.
5. Conclude admission if default exists, application complete and no disciplinary proceeding pending against proposed IRP; otherwise rejection.

Template: Section 9 operational creditor application

6. Identify operational debt under Section 5(21).
7. Mention Section 8 demand notice/invoice.
8. Check 10-day reply: payment or pre-existing dispute.
9. If no payment/no genuine dispute, application under Section 9 with required documents.
10. Apply Mobilox-style test for dispute if facts mention arbitration/quality/breach.

Template: Moratorium question

11. State insolvency commencement date and Section 13 order.
12. List four prohibitions under Section 14(1).
13. Mention critical/essential supply protection and current dues condition.
14. Mention exceptions: notified transactions and surety in guarantee.
15. Conclude whether the specific suit/recovery/security enforcement/asset sale is valid or void/stayed.

Template: Resolution plan question

16. Check applicant eligibility under Section 29A.
17. Check plan contents under Section 30(2): CIRP costs priority, OC payments, management, implementation, no law contravention, Board criteria.
18. Check CCI approval before CoC approval if Section 5 Competition Act is triggered.
19. Mention CoC approval by 66% voting share.
20. Mention NCLT approval under Section 31 and binding effect, plus statutory approvals within 1 year or legal period, whichever later.

Template: Liquidation question

21. Check Section 33 triggers: no plan, plan rejected, CoC 66% decision, or approved plan contravention.
22. State effects: public announcement, intimation to registration authority, bar on suits, deemed discharge notice.
23. State liquidator/NCLT role if proceedings need to be instituted.
24. Apply Section 53 waterfall if distribution is asked.

15. Last-day revision traps

- IBC is resolution-first, not recovery-first.
- Default threshold is Rs. 1 crore, not Rs. 1 lakh for present notes.
- Financial creditor does not send demand notice; operational creditor must send demand notice.
- Operational creditor case fails if genuine pre-existing dispute exists.
- Admission date is insolvency commencement date, and promoters lose management control from IRP appointment.
- General CoC voting is 51%, but most important decisions are 66%, and withdrawal is 90%.
- CoC can decide liquidation before expiry of CIRP, but needs 66%.
- Moratorium does not protect surety/personal guarantor.
- Resolution applicant eligibility under Section 29A must be checked before plan evaluation.
- Section 32A protects corporate debtor/new owner property in qualifying cases, not old wrongdoers.
- Section 53 waterfall overrides inconsistent statutory dues priority because Section 238 overrides other laws.
- Fast track: 90 days plus one extension up to 45 days; do not confuse with ordinary CIRP 180 + 90 + 330 outer limit.

D. Quick Revision Tables

Approval thresholds

Voting threshold	Provision / use
51%	General decisions of CoC.
66%	Extension of CIRP; appoint/replace RP; approve Section 28 actions; approve resolution plan; decide liquidation.
90%	Withdrawal under Section 12A after admission.
33%	Quorum and member request for CoC meeting.
75%	Important-points PDF states fast track extension approval by 75% voting share.

CIRP 7 delay monitoring

Delayed activity	Due date / filing logic
Public announcement not made	Due by T+3; first CIRP 7 = due date + 3 days; then X+30, X+60, X+90 and so on.
Appointment of RP not made	T+30.

Information memorandum not issued	Within 92 days from public announcement.
RFRP not issued	Within 10 days from issue of IM to CoC.
CIRP not completed	T+180.

E. Final Memory Sheet

- Default -> Application -> Admission -> Moratorium + PA + IRP -> Claims -> CoC -> RP -> IM -> EOI/RFRP -> Plans -> CoC approval -> NCLT approval -> Implementation OR Liquidation.
- Section 7 = financial creditor; Section 8/9 = operational creditor; Section 10 = corporate applicant; Section 10A = COVID bar; Section 11 = not entitled; Section 11A = PPIRP priority.
- Section 12 = time; Section 12A = withdrawal; Sections 13-15 = moratorium/public announcement; Sections 16-20 = IRP; Sections 21-25A = CoC/RP/AR; Section 28 = CoC approval; Section 29A = ineligibility; Sections 30-31 = plan; Section 32A = prior offence immunity; Section 33 = liquidation.
- Remember the voting ladder: 33 quorum, 51 general, 66 major, 90 withdrawal.

SPOM SET A - SEBI ACT, LODR, ICDR, SAST & PIT

Comprehensive Exam Notes with Mega Case Studies, Exact Thresholds, Penalties, Case Scenarios and Companies Act Comparison

Source boundary: Prepared only from the uploaded ICAI SEBI chapter, Case Scenario Booklet, All Important Points PDF and Hemant Somani notes. No external law update or web source has been used.

How to use these notes

- First read the global mega case study once to understand how SEBI Act, LODR, ICDR, SAST and PIT interact in one listed company lifecycle.
- Then read each part-wise mega case study before the notes of that part. The case is designed to trigger the provisions, exceptions, filings, penalties and what-if scenarios.
- Every limit, threshold, timeline and penalty from the uploaded material has been stated in figures wherever available. Avoid answering with vague phrases like prescribed threshold in the exam.
- Tables are used only for revision clarity. Detailed explanation is retained in paragraph form, in the same spirit as the Chapter 1 notes.

Coverage map - nothing material intentionally skipped

Part	Coverage
SEBI Act, 1992	Sections 1, 2, 3 to 8, 11, 11A, 11AA, 11B, 11C, 11D, 12, 12A, 13 to 15, 15A to 15HB, 15-I to 15JB, 15K to 15Z, 16 to 18, 20, 20A, 22 to 24B, 26 to 28B, 29 to 34A
LODR Regulations, 2015	Applicability, market-cap trigger, Board, directors, committees, subsidiaries, quarterly/annual/event-based compliances, related party transactions, secretarial audit, governance report
ICDR Regulations, 2018	IPO/FPO eligibility, general conditions, OFS, convertible securities, promoter contribution, lock-in, offer documents, pricing, subscription, allotment, advertisements, monitoring, green shoe, exit opportunity
SAST Regulations, 2011	Acquirer/PAC/control, initial trigger, creeping acquisition, control trigger, voluntary offer, open offer timeline, escrow, obligations, disclosures, encumbrance and recommendations
PIT Regulations, 2015	Insider, connected person, UPSI, legitimate purpose, trading restrictions, trading plans, initial/continual disclosures, structured digital database, informant mechanism, code of fair disclosure and conduct
Integrated extras	Penalties, exact thresholds, case scenario booklet, test your knowledge digest, SEBI vs Companies Act comparison and examiner traps

GLOBAL MEGA CASE STUDY - One listed company, five SEBI regimes

Global mega case facts

Aranya Consumer Technologies Limited (ACTL) began as a private company manufacturing premium packaged beverages. After rapid expansion, ACTL planned an IPO to fund a new manufacturing facility, acquire a target brand, repay debt and meet general corporate purposes. Before filing the DRHP, the promoters held some shares in physical form and a portion of old partly-paid shares remained unpaid. The finance team proposed to use 25% of the issue for general corporate purposes and another portion for a target investment not yet identified. ACTL also had a partnership-firm history that it wanted to count for IPO eligibility. These facts trigger the SEBI ICDR Regulations.

After listing, ACTL became subject to LODR. Its Board has a promoter chairperson, several executive directors, a woman director, independent directors, an audit committee, NRC, SRC and risk management committee. A material unlisted subsidiary carries out a large distribution business. The subsidiary proposes to sell assets exceeding 20% of its assets, and ACTL needs to check shareholder approval, reporting to stock exchanges, website disclosures, quarterly results, annual report, shareholding pattern and corporate governance report requirements.

One year later, Falcon Capital and persons acting in concert acquire shares in ACTL. Their holding crosses 25%, and later they attempt a further acquisition beyond the creeping limit. One promoter pledges shares and later releases the pledge. These facts trigger SAST open offer, disclosure and encumbrance provisions.

At the same time, ACTL is negotiating a major acquisition. Before public announcement, an executive director, the statutory audit team and a consultant become aware of quarterly financial results, interim dividend, fund raising and acquisition plans. A connected person trades and another person receives UPSI. These facts trigger PIT restrictions, trading plan, disclosures, structured digital database and insider-trading penalties.

SEBI receives investor complaints alleging price manipulation, insider trading and failure to redress grievances. SEBI calls for information, undertakes inspection, appoints an investigating authority, can issue directions, attach bank accounts/property for up to 90 days subject to

Special Court confirmation within 90 days, levy penalties, order disgorgement to IPEF, and the aggrieved person may appeal to SAT and then to the Supreme Court on a question of law.

- **ICDR trigger:** IPO, DRHP, demat promoter holding, partly paid shares, GCP cap, unidentified acquisition object, partnership track record, promoter contribution and lock-in.
- **LODR trigger:** Listed entity governance, independent directors, woman director, committees, quarterly and annual disclosures, material subsidiary, RPT, website and governance report.
- **SAST trigger:** Acquirer with PAC crosses 25%, creeping acquisition above 5% in a financial year, acquisition of control, voluntary open offer and promoter encumbrance disclosures.
- **PIT trigger:** UPSI about results, dividend, capital raising, merger/acquisition and expansion. Insiders and connected persons must not communicate/trade except for legitimate purpose, duty or legal obligation.
- **SEBI Act trigger:** SEBI powers, investigation, directions, penalties, disgorgement, SAT appeal and recovery.

Master table of exact limits, thresholds, timelines and penalties

Area	Exact limit / threshold / timeline
SEBI Board composition	1 Chairman + 2 CG Ministry members + 1 RBI member + 5 CG nominees; at least 3 of the 5 CG nominees must be whole-time members
SEBI Chairman/WTM tenure	Maximum 5 years; eligible for reappointment; no person after age 65 years
Relinquishment/termination notice	3 months notice or 3 months salary and allowance in lieu
Attachment by SEBI	Not exceeding 90 days; confirmation from Special Court within 90 days
CIS deemed corpus	Unregistered/not exempt pooling of funds involving corpus of Rs. 100 crore or more is deemed CIS
Investigation custody	Books/records may be kept for 6 months; may be called again if needed
Investigation failure punishment	Imprisonment up to 1 year or fine up to Rs. 1 crore or both + further fine up to Rs. 5 lakh per day
SEBI annual report	Within 90 days after end of financial year
SAT appeal	45 days from receipt of order; delay may be condoned for sufficient cause
SAT disposal target	Endeavour to dispose appeal within 6 months
Supreme Court appeal from SAT	60 days + further 60 days on sufficient cause, only on question of law
General SEBI offence	Imprisonment up to 10 years or fine up to Rs. 25 crore or both
Failure to pay penalty/comply with orders	Imprisonment minimum 1 month up to 10 years or fine up to Rs. 25 crore or both
LODR Board meetings	At least 4 meetings in a financial year; max 120 days gap
LODR top 2000 Board minimum	At least 6 directors
LODR Board quorum top 2000	1/3 of total strength or 3 directors, whichever higher, including at least 1 independent director
LODR directorship cap	Not more than 7 listed entities; if MD/WTD in any listed entity, ID in not more than 3 listed entities
Audit committee	Minimum 3 directors; at least 2/3 independent; quorum 2 members or 1/3, whichever higher, with at least 2 independent directors
NRC	Minimum 3 directors; all non-executive; at least 2/3 independent
SRC	Minimum 3 directors; at least 1 independent; chairperson non-executive
RMC	Applicable to top 1000 listed entities / HVDLE; minimum 3 members; majority directors; at least 1 independent director
Quarterly results	Within 45 days from end of quarter other than last quarter
Annual audited financial results	Within 60 days from end of financial year
Shareholding pattern	1 day prior to listing; within 21 days from quarter end; within 10 days of capital restructuring causing >2% change
ICDR IPO net tangible assets	At least Rs. 3 crore in each of preceding 3 full years; not more than 50% in monetary assets unless firm commitments for excess
ICDR IPO average operating profit	At least Rs. 15 crore during preceding 3 years
ICDR IPO net worth	At least Rs. 1 crore in each of preceding 3 full years
ICDR name change	If name changed in last 1 year, at least 50% revenue from activity indicated by new name
Alternate IPO route	Book-built issue with at least 75% of net offer to QIBs
GCP cap	General corporate purposes not more than 25% of amount raised
GCP + unidentified acquisition cap	Combined not more than 35%
Firm finance arrangement	At least 75% of stated means of project cost, excluding amount raised through issue/internal accruals
Minimum promoter contribution	20% of post-issue capital
IPO lock-in	Minimum promoter contribution: 18 months; excess promoter holding: 6 months; pre-issue capital: 6 months
Price band	Cap price at least 105% and not more than 120% of floor price
Discount to RII/employees	Not more than 10% of base price
Minimum subscription	90% of offer, except OFS of specified securities
Issue period	Minimum 3 working days and maximum 10 working days
Minimum application money	Before first call at least 25% of issue price; 100% in OFS
Lot value	Minimum application value Rs. 10,000 to Rs. 15,000 for determining lot size
Unpaid subscription money	Call within 12 months from allotment; otherwise shares liable to forfeiture

Minimum prospective allottees	1000
SAST initial trigger	Acquirer + PAC acquiring 25% or more voting rights requires PA/open offer
SAST creeping trigger	Already 25% or more but below maximum non-public shareholding: acquisition >5% voting rights in a financial year triggers open offer
SAST IGP substitution	For Innovators Growth Platform listed entity, read 25% as 49%, 5% disclosure as 10%, and 2% as 5%
SAST acquisition disclosure	>5% shares/VR; change >2%; or falling below 5%: disclose within 2 working days
Encumbrance disclosure	Within 7 working days of creation/invocation/release to stock exchange and target company
Annual encumbrance declaration	Within 7 working days from financial year end to stock exchange and audit committee
DPS	Within 5 days from initial public announcement
Draft LOF to SEBI	Within 5 working days
SEBI comments on draft LOF	Within 15 working days
Final LOF dispatch	Within 7 days from receipt of SEBI comments
Offer opening	Within 12 days from SEBI comments
Tendering period	10 days
Payment after offer closes	Within 10 working days
Post-issue advertisement	Within 5 working days
PIT connected person lookback	Associated during 6 months prior to concerned act
PIT trading plan commencement	Trading can commence only after 120 calendar days from public disclosure of plan
Trading plan window	Specific date or time period not exceeding 5 consecutive trading days
Trading plan price limits	Buy up to 20% higher and sale up to 20% lower
Compliance officer on trading plan	Approve or reject within 2 trading days
PIT initial disclosure	On becoming KMP/director/promoter group: within 7 days
PIT continual disclosure threshold	Trade value exceeding Rs. 10 lakh in one transaction or series during a calendar quarter; disclose within 2 trading days
Company to stock exchange after PIT disclosure	Within 2 trading days of receipt or becoming aware
Disclosures maintenance	Minimum 5 years
Structured digital database	Preserve for 8 years after completion of relevant transaction

PART I - SEBI ACT, 1992

Part-wise mega case study - SEBI Act
SEBI receives complaints that ACTL and a set of brokers have manipulated the price of ACTL securities and that insiders traded before public disclosure of quarterly results and an acquisition plan. SEBI calls for records from ACTL, brokers, banks and intermediaries; inspects books; appoints an investigating authority; examines persons on oath; applies to the Designated Court/Magistrate for seizure because records may be destroyed; issues cease-and-desist and market restraint directions; attaches bank accounts/property for up to 90 days subject to Special Court confirmation; levies penalties; orders disgorgement; credits disgorged amounts to IPEF; recovers unpaid penalty through its Recovery Officer; and the aggrieved person files appeal before SAT within 45 days and then to the Supreme Court within 60 days on a question of law.

1. Introduction, commencement and objectives

SEBI was established in 1988 as a non-statutory body and obtained statutory character in 1992. The SEBI Act came into force on 30 January 1992 and extends to the whole of India. The core objectives are: protect investors in securities, promote development of the securities market and regulate the securities market and matters connected or incidental thereto.

2. Important definitions under Section 2

Term	Meaning for exam
Board	Securities and Exchange Board of India established under Section 3.
Collective investment scheme	Any scheme/arrangement satisfying Section 11AA.
Judicial Member	Member of SAT appointed under Section 15MA and includes Presiding Officer.
Member	Member of SEBI Board and includes Chairman.
Regulations	Regulations made by the Board under the SEBI Act.
Reserve Bank	Reserve Bank of India under RBI Act, 1934.
Securities	Meaning assigned in Section 2 of SCRA, 1956.
Technical Member	Technical Member appointed under Section 15MB.

3. Establishment and management of SEBI - Sections 3 to 8

- **Section 3:** SEBI is a body corporate with perpetual succession, common seal, power to acquire/hold/dispose property, contract, sue and be sued. Head office: Mumbai; offices may be established elsewhere in India.
- **Section 4 composition:** Chairman nominated by Central Government; 2 members from Central Government Ministry; 1 member from RBI; 5 other members nominated by Central Government, out of whom at least 3 must be whole-time members.

- **Eligibility:** Chairman and members should be persons of ability, integrity and standing with capacity/special knowledge in securities market, law, finance, economics, accountancy, administration or other useful discipline.
- **Section 5 tenure:** Chairman and whole-time members hold office for a period not exceeding 5 years and may be reappointed, but cannot hold office after attaining age 65. Relinquishment requires 3 months written notice to Central Government. Central Government may terminate services by 3 months notice or 3 months salary and allowance in lieu.
- **Section 6 removal:** Member shall be removed if insolvent, of unsound mind, convicted of offence involving moral turpitude, or has abused position so as to make continuance detrimental to public interest. Reasonable opportunity of being heard is required in abuse-of-position removal.
- **Section 7 meetings:** Board meets at prescribed times/places. If Chairman cannot attend, members present choose one among themselves. Decisions are by majority of members present; Chairman/presiding member has second or casting vote in equality.
- **Section 7A conflict:** Member who is director of a company and has indirect pecuniary interest in a matter must disclose it; disclosure is recorded and member shall not participate in deliberation/decision.
- **Section 8:** Vacancy, defect in constitution/appointment or procedural irregularity not affecting merits will not invalidate SEBI proceedings.

4. Powers and functions of SEBI - Section 11

Section 11 is the heart of the SEBI Act. It imposes a duty on SEBI to protect investors, promote development of securities market and regulate the securities market by such measures as it thinks fit. In exam answers, first state the duty, then list the relevant power according to facts.

- Regulating business in stock exchanges and other securities markets.
- Registering and regulating stock brokers, sub-brokers, share transfer agents, bankers to issue, trustees, registrars, merchant bankers, underwriters, portfolio managers, investment advisers and other intermediaries.
- Registering/regulating depositories, participants, custodians, FIIs, credit rating agencies and other notified intermediaries.
- Registering/regulating venture capital funds, collective investment schemes and mutual funds.
- Promoting and regulating self-regulatory organisations.
- Prohibiting fraudulent and unfair trade practices.
- Promoting investor education and training of intermediaries.
- Prohibiting insider trading.
- Regulating substantial acquisition of shares and takeovers.
- Calling for information, undertaking inspection, conducting inquiries and audits of stock exchanges, mutual funds, intermediaries, persons associated with securities market and SROs.
- Calling for information/records from any person including banks or statutory authorities if relevant to SEBI investigation/inquiry.
- Furnishing/calling information to/from similar authorities in India/outside India, subject to law and prior Central Government approval for arrangements with outside authorities.
- Exercising delegated SCRA powers, levying fees/charges, conducting research and performing prescribed functions.

Section 11 civil court powers and protective directions

Power area	What SEBI can do
Civil court powers	Discovery and production of books/documents; summoning/enforcing attendance; examining on oath; inspection of books/registers/documents; issuing commissions for examination of witnesses/documents.
Inspection of listed/public companies	Inspect books/registers/documents of listed public company or public company intending to list where SEBI has reasonable grounds to believe insider trading or FUTP.
Protective orders	Suspend trading of securities; restrain access to securities market; prohibit persons from buying/selling/dealing; suspend office-bearer of stock exchange/SRO; impound and retain proceeds/securities; attach bank accounts/property for up to 90 days subject to Special Court confirmation within 90 days; direct non-alienation of assets.
Disgorgement	Wrongful gain/loss avoided may be disgorged and credited to Investor Protection and Education Fund established by SEBI.
Opportunity of hearing	SEBI must give opportunity of hearing either before or after passing orders to concerned intermediary/person.

5. Section 11A - Issue of prospectus, offer document or advertisement

For investor protection, SEBI may specify by regulations matters relating to issue of capital, transfer of securities and incidental matters and the manner of disclosure by companies. It may also prohibit any company from issuing prospectus, offer document or advertisement soliciting public money for securities or specify conditions subject to which it may be issued. SEBI may specify requirements for listing and transfer of securities.

6. Section 11AA - Collective Investment Scheme (CIS)

A scheme/arrangement is CIS if contributions/payments by investors are pooled and utilised for the scheme, investors contribute with a view to receive profits/income/produce/property, property/contribution/investment is managed on behalf of investors, and investors do not have day-to-day control. Any pooling of funds under a scheme not registered with SEBI and not exempt, involving corpus of Rs. 100 crore or more, is deemed CIS.

Not treated as CIS under Section 11AA(3)	Examples
Co-operative society schemes	Registered/deemed registered co-operative societies.
NBFC deposits	Deposits accepted by NBFCs under RBI Act.
Insurance	Contracts of insurance under Insurance Act.
EPF/pension/insurance scheme	Schemes under EPF and Miscellaneous Provisions Act.
Companies Act deposits	Deposits accepted under Companies Act, 2013.
Nidhi/mutual benefit society deposits	Deposits accepted by Nidhi/mutual benefit society.
Chit fund	Chit business under Chit Fund Act.
Mutual fund subscription	Contributions in nature of subscription to mutual fund.
Notified schemes	Schemes notified by Central Government in consultation with SEBI.

7. Section 11B - Directions and levy of penalty

SEBI may issue directions if necessary in the interest of investors/orderly development of securities market, to prevent affairs of intermediaries/persons referred to in Section 12 being conducted detrimentally, or to secure proper management of such intermediaries/persons. Directions may be issued to any person/class of persons referred to in Section 12, associated with securities market, or any company in respect of Section 11A matters. SEBI may also levy penalty under specified penalty sections after inquiry. Direction power includes disgorgement of wrongful gain or loss averted.

8. Section 11C - Investigation

- **Grounds:** SEBI must have reasonable grounds to believe that transactions in securities are being dealt with detrimentally to investors/securities market or an intermediary/person associated with securities market has violated the Act/rules/regulations/directions.
- **Order:** SEBI may order investigation by an Investigating Authority and require report.
- **Duty to preserve/produce:** Managers, MD, officers, employees of company, every intermediary and every person associated with securities market must preserve and produce books, registers, documents and records.
- **Custody:** Investigating Authority may keep records for 6 months and then return them, but may call them again if needed. Certified copies must be given when requested.
- **Examination:** Investigating Authority may examine on oath and require personal appearance.
- **Failure/refusal:** Punishable with imprisonment up to 1 year, or fine up to Rs. 1 crore, or both, and further fine up to Rs. 5 lakh for every day after first during which failure/refusal continues.
- **Search/seizure:** If records may be destroyed, mutilated, altered, falsified or secreted, Investigating Authority may apply to Magistrate/Judge of Designated Court in Mumbai for seizure order. Search/seizure follows CrPC.
- **Exemption for listed/public companies:** Seizure of records of listed public company or public company intending to list is not authorised unless company indulges in insider trading or market manipulation.

9. Section 11D - Cease and desist proceedings

If SEBI finds after inquiry that any person has violated or is likely to violate the Act/rules/regulations, it may pass an order requiring such person to cease and desist. For listed public company or public company intending to list (other than intermediaries), SEBI cannot pass such order unless it has reasonable grounds to believe insider trading or market manipulation.

10. Section 12 and Section 12A

Section	Exam-ready explanation
Section 12 registration	Specified intermediaries and market participants can buy/sell/deal/sponsor/carry on activities only with certificate of registration from SEBI and subject to conditions. Includes stock brokers, bankers to issue, merchant bankers, underwriters, portfolio managers, investment advisers, depositories, custodians, FIIs, credit rating agencies, venture capital funds, CIS, mutual funds, AIFs and business trusts. SEBI may suspend/cancel certificate after reasonable opportunity of hearing.
Section 12A prohibition	No person shall use manipulative/deceptive device, scheme or artifice to defraud, fraudulent/deceptive acts, insider trading, dealing while in possession of material or non-public information, communication of such information, or acquire control/securities beyond prescribed percentage in contravention of SEBI regulations.

11. Finance, accounts and audit - Sections 13 to 15

- Central Government may make grants to SEBI after due Parliamentary appropriation.

- SEBI General Fund consists of grants, fees, charges and sums from other sources decided by Central Government.
- Fund is used for remuneration of members/officers/employees, expenses for Section 11 functions and expenses on authorised purposes.
- SEBI accounts are audited by CAG. Certified accounts and audit report are forwarded annually to Central Government and laid before both Houses of Parliament.

12. Penalties under Sections 15A to 15HB

Section	Default	Penalty
15A	Failure to furnish/file information, returns, reports, books/documents; false/incorrect/incomplete filing; failure to maintain books/records	Minimum Rs. 1 lakh; up to Rs. 1 lakh per day; maximum Rs. 1 crore
15B	Intermediary fails to enter agreement with client	Minimum Rs. 1 lakh; up to Rs. 1 lakh per day; maximum Rs. 1 crore
15C	Listed company/intermediary fails to redress investor grievances within SEBI-specified time after written call	Minimum Rs. 1 lakh; up to Rs. 1 lakh per day; maximum Rs. 1 crore
15D	CIS/mutual fund defaults: no registration, non-compliance with certificate, failure to list schemes, dispatch certificates, refund application money, invest money as specified	Minimum Rs. 1 lakh; up to Rs. 1 lakh per day; maximum Rs. 1 crore
15E	AMC of mutual fund fails to comply with restrictions on AMC activities	Minimum Rs. 1 lakh; up to Rs. 1 lakh per day; maximum Rs. 1 crore
15EA	Default by AIF/InvIT/REIT or failure to comply with SEBI directions	Minimum Rs. 1 lakh; up to Rs. 1 lakh per day; maximum higher of Rs. 1 crore or 3 times gains
15EB	Investment adviser/research analyst fails to comply with regulations/directions	Minimum Rs. 1 lakh; up to Rs. 1 lakh per day; maximum Rs. 1 crore
15F(a)	Stock broker fails to issue contract notes	Minimum Rs. 1 lakh; may extend to Rs. 1 crore
15F(b)	Stock broker fails to deliver security or make payment to investor	Minimum Rs. 1 lakh; up to Rs. 1 lakh per day; maximum Rs. 1 crore
15F(c)	Stock broker charges excess brokerage	Minimum Rs. 1 lakh; up to 5 times excess brokerage, whichever higher
15G	Insider trading	Minimum Rs. 10 lakh; maximum higher of Rs. 25 crore or 3 times profit made
15H	Non-disclosure/acquisition/takeover defaults	Minimum Rs. 10 lakh; maximum higher of Rs. 25 crore or 3 times profit made
15HA	Fraudulent and unfair trade practices	Minimum Rs. 5 lakh; maximum higher of Rs. 25 crore or 3 times profits
15HAA	Altering/destroying records or unauthorised access/damage to SEBI database	Minimum Rs. 1 lakh; maximum higher of Rs. 10 crore or 3 times profits
15HB	Residual contravention with no separate penalty	Minimum Rs. 1 lakh; maximum Rs. 1 crore

13. Adjudication and settlement - Sections 15-I to 15JB

- **Adjudicating officer:** SEBI may appoint any officer not below rank of Division Chief for inquiry and imposition of penalties under specified sections after reasonable opportunity of hearing.
- **AO powers:** Summon/enforce attendance, receive evidence and require production of documents relevant to inquiry.
- **Enhancement by SEBI:** SEBI may call for and examine AO record and enhance penalty if order is erroneous and not in interest of securities market, after opportunity of hearing. This cannot be done after expiry of 3 months from AO order or disposal of appeal under Section 15T, whichever earlier.
- **Penalty factors - Section 15J:** Disproportionate gain/unfair advantage, loss to investors and repetitive nature of default.
- **Section 15JA:** Penalties realised under the Act are credited to Consolidated Fund of India.
- **Section 15JB settlement:** Person against whom proceedings have been or may be initiated under sections 11, 11B, 11D, 12(3) or 15-I may apply for settlement. No appeal lies to SAT against settlement order. Settlement amounts excluding disgorgement and legal costs go to CFI.

14. Securities Appellate Tribunal - Sections 15K to 15Z

Topic	Exact rule
Establishment - 15K	Central Government establishes SAT by notification and specifies matters/places of jurisdiction.
Composition - 15L	Presiding Officer and such number of Judicial/Technical Members as Central Government determines. Every Bench must include at least 1 Judicial Member and 1 Technical Member. Benches ordinarily sit at Mumbai.
Presiding Officer qualification - 15M	Judge of Supreme Court or Chief Justice of High Court or High Court judge for at least 7 years.
Judicial Member qualification	High Court judge for at least 5 years.
Technical Member qualification	Secretary/Additional Secretary/equivalent post in CG/SG, or person with proven ability, integrity and standing with at least 15 years professional experience in financial sector including securities

	market/pension funds/commodity derivatives/insurance.
Appointment	Presiding Officer and Judicial Members by CG in consultation with CJI/nominee; Technical Members on recommendation of Search-cum-Selection Committee.
Tenure - 15N	5 years, eligible for reappointment for another term of maximum 5 years; not after age 70.
Resignation - 15Q	Written notice to CG; continues until 3 months from receipt, successor enters office, or term expires, whichever earliest, unless permitted earlier.
Appeal to SAT - 15T	Any person aggrieved by SEBI/AO/IRDAI/PFRDA order may appeal within 45 days from receipt; delay may be condoned for sufficient cause.
SAT disposal	As expeditiously as possible; endeavour within 6 months from receipt of appeal.
Powers - 15U	Not bound by CPC; guided by natural justice; has civil court powers; proceedings are judicial.
Representation - 15V	In person or through CA/CS/CMA/legal practitioner/officer.
Civil court bar - 15Y	No civil court jurisdiction where AO/SAT empowered; no injunction.
Appeal to SC - 15Z	Within 60 days from communication of SAT decision/order on question of law; further 60 days possible.

15. Miscellaneous - Sections 16 to 34A

- **Section 16:** SEBI is bound by Central Government directions on questions of policy; SEBI must as far as practicable be given opportunity to express views; CG decision whether a question is policy is final.
- **Section 17:** CG may supersede Board for period not exceeding 6 months in grave emergency, persistent default in complying with directions, default in discharge of functions causing deterioration of financial position/administration, or public interest. Members vacate office, powers vest as directed by CG, property vests in CG until reconstitution.
- **Section 18:** SEBI furnishes returns/statements/particulars to CG and submits report within 90 days after end of financial year; report laid before Parliament.
- **Section 20/20A:** Historical appeal to CG for orders before 1999 amendment; bar of jurisdiction except provided under 15T/20.
- **Section 22/23:** Members/officers/employees of SEBI are public servants; protection for good faith acts.
- **Section 24:** Contravention or attempt/abetment punishable with imprisonment up to 10 years or fine up to Rs. 25 crore or both. Failure to pay penalty/comply directions/orders: imprisonment minimum 1 month up to 10 years or fine up to Rs. 25 crore or both.
- **Section 24A:** Offence not punishable with imprisonment only or imprisonment and fine may be compounded by SAT or court before which proceedings are pending.
- **Section 24B:** CG may grant immunity on SEBI recommendation if full and true disclosure is made; no immunity where prosecution already instituted before receipt of application; immunity can be withdrawn for non-compliance/false evidence.
- **Sections 26 to 26E:** Cognizance only on SEBI complaint. Special Courts for speedy trial consist of single judge appointed by CG with concurrence of Chief Justice of High Court; judge must be Sessions Judge or Additional Sessions Judge. Special Court deemed Court of Session.
- **Section 27:** Contravention by company: company and person in charge/responsible are liable, subject to knowledge/due diligence defence; consent/connivance/neglect by director/manager/secretary/officer creates liability.
- **Section 28A:** Recovery Officer may recover unpaid penalty, refund, disgorgement or fees by attachment/sale of movable/immovable property, attachment of bank accounts, arrest/detention, receiver. Recovery under SEBI directions has precedence over other claims.
- **Section 28B:** On death, legal representative is liable to pay sums deceased would have paid, with penalty liability only if penalty imposed before death; liability limited to estate.
- **Sections 29 to 34A:** CG rule-making, SEBI regulation-making, laying rules/regulations before Parliament for 30 days, application of other laws not barred, power to remove difficulties for 5 years from commencement, validation of certain acts.

PART II - SEBI (LODR) REGULATIONS, 2015

Part-wise mega case study - LODR
ACTL is now listed on BSE and NSE and ranks within the top 2000 listed entities by market capitalisation. Its chairperson is a promoter and non-executive director. The company has 6 directors, one woman director and independent directors. A non-executive director aged 76 is proposed to continue. The audit committee has 6 members, but only 3 are independent. Audit committee meetings are held with gaps exceeding 120 days and a meeting occurs without two independent directors. ACTL has an unlisted material subsidiary whose turnover exceeds 20% of consolidated turnover and proposes to sell more than 20% of its assets. ACTL must file quarterly results within 45 days, annual results within 60 days, shareholding pattern within 21 days, corporate governance report, annual report, website disclosures and RPT approvals.

1. Scope and applicability

LODR consolidated listing obligations and disclosure requirements for listed entities. It applies to listed entities with specified securities on main board/SME/Innovators Growth Platform, non-convertible debt securities, Indian depository receipts, securitised debt instruments, security receipts, mutual fund units and other securities specified by SEBI.

- For market-cap based provisions, recognised stock exchanges prepare list on 31 December based on average market capitalisation from 1 July to 31 December.
- Relevant provisions become applicable after 3 months from 31 December, i.e. 1 April, or beginning of immediate next financial year, whichever is later.
- If market-cap rank falls outside threshold, provisions continue unless outside threshold for 3 consecutive years. Cessation applies at end of financial year following 31 December of third consecutive year; for Jan-Dec financial year entities, at end of 3 months from 31 December, i.e. 31 March.
- Debt threshold-based provisions continue even if the entity later falls below the debt threshold mentioned in Regulation 15(1A).

2. Board of Directors - Regulation 17

- Optimum combination of executive and non-executive directors.
- At least 1 woman director for listed entity; top 1000 listed entities must have at least 1 independent woman director.
- Not less than 50% of board shall be non-executive directors.
- If chairperson is non-executive director: at least 1/3 of board independent directors.
- If chairperson is not regular non-executive chairperson: at least 1/2 board independent directors.
- If regular non-executive chairperson is promoter or related to promoter/person occupying management position at board level or one level below board: at least 1/2 board independent directors.
- Top 2000 listed entities: board shall comprise not less than 6 directors.
- Non-executive director age 75 or above: appointment/continuation requires special resolution and explanatory statement must justify appointment.
- Board meetings: at least 4 times in a financial year; maximum gap 120 days between two consecutive meetings.
- Top 2000 listed entity board quorum: 1/3 total strength or 3 directors, whichever higher, including at least 1 independent director.
- Board must periodically review compliance reports of all laws applicable and steps taken to rectify non-compliance.
- Evaluation of independent directors by entire board must include performance and fulfilment of independence criteria; director being evaluated does not participate.

3. Maximum directorship and committee limits - Regulations 17A and 26

Rule	Exact limit
Listed entity directorship	A person shall not be a director in more than 7 listed entities w.e.f. 1 April 2020.
Independent directorship	A person shall not serve as an independent director in more than 7 listed entities.
MD/WTD restriction	A person serving as MD/WTD in any listed entity shall serve as independent director in not more than 3 listed entities.
Committee membership	A director shall not be member in more than 10 committees or chairperson of more than 5 committees across listed entities in which he/she is director.
Which committees counted	Audit Committee and Stakeholders Relationship Committee only.
Which companies counted for committee limit	All public limited companies listed or unlisted; private companies, foreign companies and Section 8 companies excluded.

4. Corporate governance for subsidiaries - Regulation 24

- At least 1 independent director of listed entity must be director on the board of unlisted material subsidiary, whether incorporated in India or not.
- Material subsidiary for this purpose: subsidiary whose turnover or net worth exceeds 20% of consolidated turnover or net worth of listed entity and subsidiaries in immediately preceding accounting year.
- Audit Committee of listed company must review financial statements, especially investments by subsidiary company.
- Minutes of board meetings of unlisted subsidiary must be placed before board of listed entity.
- Management of unlisted subsidiary must bring statement of all significant transactions/arrangements to notice of board of listed entity.
- Significant transaction/arrangement means individual transaction or arrangement exceeding or likely to exceed 10% of total revenues, total expenses, total assets or total liabilities of unlisted subsidiary for immediately preceding accounting year.
- Listed entity cannot dispose shares in material subsidiary reducing holding to 50% or less or cease control without special resolution, except court/tribunal scheme or IBC resolution plan with disclosure to stock exchange within 1 day of approval.
- Sale/disposal/lease of assets exceeding 20% of assets of material subsidiary on aggregate basis during a financial year requires prior shareholder approval by special resolution, with similar scheme/IBC exception and no applicability if between two wholly-owned subsidiaries of listed entity.

5. LODR disclosure and compliance calendar

Compliance	Exact filing / requirement
Reg 13(3) grievance redressal	Quarterly statement of investor complaints: pending at beginning, received, disposed,

	unresolved.
Reg 27(2) corporate governance	Quarterly compliance report on corporate governance signed by compliance officer or CEO.
Reg 31(1) shareholding pattern	1 day prior to listing; within 21 days from end of each quarter; within 10 days of capital restructuring causing >2% change in paid-up capital.
Reg 32 statement of deviation/variation	Statement for public issue, rights issue, preferential issue etc.
Reg 33 quarterly results	Quarterly and year-to-date standalone financial results within 45 days of end of each quarter other than last quarter.
Reg 33 annual results	Annual audited financial results and audit report within 60 days from end of financial year.
Reg 29 prior intimation	Stock exchange prior intimation for board meeting where financial results, buyback, voluntary delisting, fund raising, bonus, dividend and alteration of securities/interest dates are considered.
Reg 42 record date/book closure	For rights issue and other corporate benefits/intimations to stock exchanges; dividend must be recommended/declared before record date.
Reg 34 annual report	Submit annual report to stock exchange and upload on website. Changes after dispatch to shareholders to be sent not later than 48 hours after AGM.
Reg 46 website	Listed entity must maintain functional website; changes in website content to be updated/intimated as required in uploaded material.

6. Related Party Transactions - Regulation 23

LODR uses wider listed-entity governance controls for RPTs. The notes should be read with Companies Act Section 188 but not substituted for it. Under LODR, materiality, audit committee approval, shareholder approval and disclosure obligations apply according to regulation. In exam, identify whether the company is listed and then separately test Companies Act and LODR requirements.

- Related party has meaning under Companies Act Section 2(76) or applicable accounting standards, as stated in LODR.
- Related party transaction involves transfer of resources, services or obligations between listed entity and related party, regardless of whether price is charged.
- Audit committee approval is central. For listed entities, material RPTs require shareholder approval, and related parties generally do not vote to approve such resolutions.
- Disclosure of RPTs forms part of governance and financial disclosures.

7. Committees under LODR

Committee	Detailed requirement
Audit Committee - Reg 18	Minimum 3 directors; at least 2/3 independent; all financially literate; at least 1 with accounting/related financial management expertise; chairperson independent and present at AGM; CS acts as secretary; meets at least 4 times a year with max 120 days gap; quorum 2 members or 1/3, whichever higher, with at least 2 independent directors; if outstanding SR equity shares, only independent directors.
NRC - Reg 19	Minimum 3 directors; all non-executive; at least 2/3 independent; chairperson independent; chairperson of listed entity can be member but cannot chair NRC; chairperson may be present at AGM.
Stakeholders Relationship Committee - Reg 20	Minimum 3 directors; at least 1 independent director; chairperson non-executive and present at AGM; with SR equity shares at least 2/3 independent.
Risk Management Committee - Reg 21	Applicable to top 1000 listed entities or high value debt listed entities; minimum 3 members; majority directors; at least 1 independent director; chairperson shall be director.

8. Corporate Governance Report and performance evaluation

- Annual report must contain corporate governance section including philosophy, board composition/category/attendance, other boards/committees, meeting dates and director inter-se relationships.
- Audit Committee: terms of reference, composition, members/chairperson, meetings and attendance.
- NRC: terms of reference, composition, meetings, attendance and performance evaluation criteria for independent directors.
- SRC: non-executive director heading committee, compliance officer, complaints received, unresolved and pending.
- RMC: terms of reference, composition, chairperson, meetings and attendance.
- General body meetings: location/time of last 3 AGMs, special resolutions, postal ballot details and procedure.
- Other disclosures include materially significant RPTs with potential conflict, penalties/strictures by stock exchange/SEBI/statutory authority during last 3 years, vigil mechanism/whistle blower and compliance with mandatory/non-mandatory requirements.
- Performance evaluation under Companies Act and LODR covers board, individual directors, chairperson and committees, with special attention to independent directors and NRC role.

PART III - SEBI (ICDR) REGULATIONS, 2018

Part-wise mega case study - ICDR

Nova Foods Limited proposes an IPO of Rs. 2,000 crore. It will use Rs. 1,000 crore for expansion, Rs. 600 crore for acquisition of an unidentified target, Rs. 300 crore for general corporate purposes and Rs. 100 crore for debt repayment. Promoter shares are partly in physical form, some equity shares are partly paid, and Nova wants to rely on partnership-firm financial track record. It has net tangible assets of Rs. 3 crore for each of 3 years, average operating profit of Rs. 15 crore, net worth of Rs. 1 crore each year, and changed name within last 1 year. It must test IPO eligibility, GCP cap of 25%, combined GCP + unidentified object cap of 35%, demat and fully-paid requirements, partnership track record certification, minimum promoter contribution of 20%, lock-in, price band, minimum subscription of 90%, issue period and allotment requirements.

1. Purpose and key definitions

ICDR Regulations regulate issue of capital and disclosure requirements for public issues, rights issues, preferential issues, bonus issues and listing-related capital market offerings. For this chapter focus is on IPO/FPO, offer documents, eligibility, promoter contribution, lock-in, pricing and issue process.

- Book building is the process to elicit demand and assess price for determination of quantum/value of securities.
- Composite issue means combination of a public offer and rights issue.
- Offer document includes red herring prospectus, prospectus or shelf prospectus, as applicable.
- Specified securities generally refers to equity shares and convertible securities covered by ICDR.

2. IPO eligibility requirements - Regulations 4 to 8A

Regulation / area	Detailed provision
Reg 4 reference date	Reference date for eligibility is the date of filing of draft offer document with SEBI.
Reg 5 ineligible entities	Issuer/promoters/directors/selling shareholders and related restrictions must be checked. If prohibited/debarred or wilful defaulter/fugitive economic offender etc. as per regulation, IPO eligibility can fail.
Reg 6(1) net tangible assets	At least Rs. 3 crore in each of preceding 3 full years, of which not more than 50% should be held in monetary assets, unless excess monetary assets are backed by firm commitment for deployment.
Reg 6(1) operating profit	Average operating profit of at least Rs. 15 crore during the preceding 3 years.
Reg 6(1) net worth	Net worth of at least Rs. 1 crore in each of preceding 3 full years.
Reg 6(1) name change	If company changed name within last 1 year, at least 50% revenue in preceding 1 full year must be from activity indicated by new name.
Reg 6(2) alternate route	If Regulation 6(1) conditions not satisfied, IPO can be made through book-building with at least 75% of net offer allotted to QIBs.
Reg 6(3) SR equity shares	Issuer with superior rights equity shares can undertake IPO only of ordinary equity shares; net worth of SR shareholders not more than Rs. 1000 crore; voting rights ratio minimum 2:1 and maximum 10:1.
Reg 7 general conditions	Issuer must have in-principle approval from recognised stock exchanges; entered into depository agreements; all promoter securities fully paid and dematerialised before filing; all existing partly-paid equity shares fully paid or forfeited; GCP cap and project finance conditions.
Reg 7 GCP cap	General corporate purposes not more than 25% of amount being raised. GCP + object where investment target/acquisition not identified not more than 35%.
Reg 7 firm finance	Firm arrangements for finance for at least 75% of stated means of project cost, excluding amount to be raised through proposed issue or internal accruals.
Partnership/LLP track record	Track record can be considered if financial statements for partnership/LLP period are restated in Companies Act, 2013 format, adequate Schedule III disclosures made and statutory auditor certifies compliance, accounting standards and true/fair view.
Reg 8 OFS conditions	Only fully paid-up specified securities held by sellers for at least 1 year can be offered for sale, subject to exceptions. In book-built IPO, sellers holding >20% of pre-issue shareholding cannot sell more than 50% of their holding; sellers holding <20% cannot sell more than 10% of their holding.

3. Convertible debt instruments and warrants - Regulations 9 to 13

- Eligibility and additional requirements apply to issue of convertible debt instruments.
- Conversion of optionally convertible debt into equity shares is regulated.
- Issue of convertible debt instruments for financing and issue of warrants are specifically regulated.
- In exam, treat convertible instruments separately from ordinary equity IPO because additional conversion, credit rating, debenture trustee and financing requirements can arise.

4. Promoter contribution, securities ineligible and lock-in - Regulations 14 to 22

Item	Rule
Minimum promoter contribution	20% of post-issue capital. This is the skin-in-the-game requirement.
Computation	Computed on basis of post-issue expanded capital. Promoters can contribute eligible securities; ineligible securities are excluded.
Lock-in minimum promoter contribution	18 months from date of allotment in IPO.
Lock-in excess promoter holding	6 months.

Lock-in pre-issue capital held by non-promoters	6 months.
Partly-paid securities	Lock-in applies according to ICDR; partly-paid old shares must be fully paid/forfeited before filing.
Pledge of locked-in securities	Allowed in limited cases when pledge is term of loan and loan finances issue objects; after invocation, lock-in continues in transferee hands.
Transferability	Promoter locked-in securities can be transferred to another promoter/promoter group/new promoter; non-promoter locked-in securities can be transferred to a person already holding locked-in specified securities; lock-in continues for transferee.

5. Offer documents, filing and public availability - Regulations 24 to 26

- Draft offer document and offer document must contain all material disclosures that are true, adequate and enable informed investment decision.
- RHP and prospectus must contain disclosures under Companies Act, 2013 and Schedule VI of ICDR.
- Lead Manager must exercise due diligence on veracity and adequacy of disclosures and call upon issuer, promoters, directors and selling shareholders to fulfil obligations stated in offer document.
- Restated audited financial statements used in offer document should not be older than 6 months from issue opening date.
- Before IPO, issuer files 3 copies of Draft Offer Document with SEBI through Lead Manager along with fees.
- Lead Manager submits agreement certificate with issuer, due diligence certificate in Form A, and debenture trustee certificate in Form B if issue includes convertible debt securities.
- Draft offer document is also filed with stock exchange with promoter details such as PAN/bank account/passport for individual promoter and PAN/bank account/registration number/ROC address for corporate promoter.
- SEBI issues observations/changes within 30 days from latest of receipt of draft offer document, satisfactory reply from Lead Manager, clarification from regulator/agency o9u r in-principle approval from stock exchange.

6. Pricing and issue process - Regulations 28 to 57

Stage	Exact rule
Pricing - Reg 28	Issuer may determine price in consultation with lead manager, subject to ICDR.
Price band - Reg 29	Cap price must be at least 105% of floor price and not more than 120% of floor price.
Differential pricing - Reg 30	Retail individual investors/employees may receive discount not more than 10% of base price; in Reg 6(2) cases anchor price not lower than price to other investors.
Opening - Reg 44	Issue opens within regulatory timeline after filing/observations as applicable.
Minimum subscription - Reg 45	At least 90% of offer, except OFS of specified securities.
Period of subscription - Reg 46	Minimum 3 working days and maximum 10 working days. Extension via RHP minimum 3 working days.
Application value - Reg 47	Minimum application money before first call at least 25% of issue price; 100% in OFS. Securities offered in lots, minimum application value Rs. 10,000 to Rs. 15,000 for determining lot size.
Calls - Reg 48	Outstanding subscription money must be called within 12 months from allotment, failing which shares liable to forfeiture.
Allotment - Reg 49/50	Allotment procedure, basis of allotment, refund and interest as per regulation. Minimum prospective allottees: 1000.
Post-issue - Reg 51 onwards	Post-issue advertisements, release of subscription money, promoter transactions, post-issue reports, restriction on further capital issues, green shoe option, alteration of rights, exit opportunity.

7. FPO provisions - Regulations 101 onwards

The uploaded chapter also covers FPO eligibility and process, which broadly mirrors IPO architecture but uses FPO-specific regulations. Remember the regulation blocks: eligibility requirements (101-105), convertible debt (106-111), minimum promoter contribution and exemptions (112-114), lock-in and transferability (115-120), offer document filing and public availability (122-124), pricing (125-128), allocation/reservation (129-130), issue materials/advertisements/underwriting/monitoring (131-139), opening/subscription/application/allotment/refund/post-issue responsibilities/restriction/green shoe (140-153).

PART IV - SEBI (SAST) REGULATIONS, 2011

Part-wise mega case study - SAST
Falcon Capital holds 18% in ACTL. It acquires another 8% with PACs, taking total voting rights to 26%. This crosses the initial 25% trigger and requires public announcement of open offer. After open offer, Falcon holds 40% and later acquires 6% in the same financia1 year, crossing the creeping acquisition limit of more than 5%. Separately, Falcon obtains contractual control without acquiring shares; this also triggers open offer. A promoter pledges shares, later invokes/release occurs, and annual no-further-encumbrance declaration is due. The target company board must constitute a committee of independent directors to give reasoned recommendations on the offer.

1. Meaning and framework

Takeover means acquisition of control of a target company by an acquirer, either alone or together with persons acting in concert. SAST Regulations protect public shareholders through open offer when acquisition of shares/voting rights/control crosses prescribed thresholds.

Term	Exam meaning
Acquirer	Person who directly/indirectly acquires or agrees to acquire shares, voting rights or control over target company, alone or with PAC.
Persons acting in concert (PAC)	Persons with common objective/purpose of acquisition or control, cooperating under agreement or understanding, formal or informal.
Control	Right to appoint majority directors or control management/policy decisions, directly or indirectly, including by shareholding, management rights, shareholders agreements, voting agreements or otherwise.
Target company	Listed company whose shares/voting rights/control are being acquired.
Immediate relatives	Spouse, parent, brother, sister or child of such person or of the spouse.

2. Open offer triggers

Trigger	Rule
Initial acquisition trigger	No acquirer shall acquire shares/voting rights in target company which, taken with existing holding of acquirer and PAC, entitle them to exercise 25% or more voting rights unless public announcement of open offer is made.
Creeping acquisition trigger	Acquirer/PAC already holding 25% or more voting rights but less than maximum permissible non-public shareholding may acquire additional shares, but acquisition exceeding 5% voting rights in a financial year triggers open offer.
Control trigger	Acquisition of control over target company triggers open offer irrespective of shareholding/voting rights.
IGP substitution	For listed entity on Innovators Growth Platform, 25% threshold is read as 49%.
Voluntary open offer	May be made for at least additional 10% shares, subject to conditions.

3. Open offer timeline

Step	Deadline / requirement
Public Announcement (PA)	Made on trigger event as per regulation.
Escrow account	For open offer amount at least 2 working days before Detailed Public Statement (DPS).
Detailed Public Statement	Published within 5 days from initial PA in newspapers.
Draft Letter of Offer	Submitted to SEBI within 5 working days.
SEBI comments	Within 15 working days.
Final Letter of Offer dispatch	Within 7 days from receipt of SEBI comments.
Offer opens	Within 12 days from SEBI comments.
Tendering period	10 days.
Payment to shareholders	Within 10 working days from closure.
Post-issue advertisement	Within 5 working days.
No upward revision timing	No upward revision in offer price in last 1 working day before offer opens.
Advertisement for tendering period	1 week before offer opens.

4. Disclosure requirements and encumbrance

Disclosure event	Deadline / to whom
Acquirer + PAC acquire more than 5% shares or voting rights	Disclose within 2 working days to stock exchange and target company. For IGP, read 5% as 10%.
Change in shareholding/voting power exceeding 2% from last disclosure	Disclose within 2 working days. For IGP, read 2% as 5%.
Change resulting in shareholding falling below 5%	Disclose within 2 working days.
Promoter creates encumbrance/pledge	Disclose within 7 working days from creation to every stock exchange where shares listed and target company at registered office.
Invocation/release of encumbrance	Disclose within 7 working days from invocation/release to stock exchange and target company.
Annual declaration of no additional encumbrance	Within 7 working days from end of financial year to stock exchange and audit committee.

5. Target company and independent directors

- Upon receipt of DPS, board of directors of target company must constitute committee of independent directors to provide reasoned recommendations on open offer.
- Target company must publish recommendations so shareholders can make informed decision.
- The target company should not fix record date in prohibited circumstances during offer process as per SAST.

- SAST process for listed companies is separate from Companies Act takeover-offer grievance under Section 230(12), which applies to companies other than listed companies.

PART V - SEBI (PROHIBITION OF INSIDER TRADING) REGULATIONS, 2015

Part-wise mega case study - PIT
ACTL is finalising quarterly financial results, an interim dividend, an acquisition and fund raising. Executive Director R has access to the plans. He shares information with the new MD and a credit rating consultant for legitimate purpose, but also tells a friend who buys shares. Members of the audit team learn profits are up 25% before public release and tell relatives. A former MD left three months ago and is now with a competitor. A promoter crosses Rs. 10 lakh trading value in a calendar quarter. ACTL must maintain a structured digital database for UPSI, close trading window under its code, obtain PIT disclosures within 2 trading days, notify stock exchange within 2 trading days, preserve records and face Section 15G penalty for insider trading.

1. Concept and objective

Insider trading means dealing in securities on the basis of confidential, unpublished price sensitive information to make profit or avoid loss. The PIT Regulations create prohibitions on communication and trading, disclosure obligations, trading plan rules, structured digital database and codes of fair disclosure/conduct.

2. Key definitions

Term	Meaning / test
Insider	Any person who is a connected person or is in possession of or has access to UPSI.
Connected person	Person who is or has during 6 months prior to concerned act been associated with company directly or indirectly in any capacity, including frequent communication, contractual/fiduciary/employment relationship, director/officer/employee, or any position/professional/business relationship allowing access or expected access to UPSI.
UPSI	Information relating to company or securities, directly or indirectly, not generally available and likely to materially affect price when generally available. Ordinarily includes financial results, dividends, change in capital structure, mergers/demergers/acquisitions/delistings/disposals/expansion and changes in KMP.
Generally available information	Information accessible to public on non-discriminatory basis.
Legitimate purpose	Sharing UPSI in ordinary course of business by insider with partners, collaborators, lenders, customers, suppliers, merchant bankers, legal advisors, auditors, insolvency professionals or other advisors/consultants, provided not to evade PIT.

3. Restrictions on communication and trading

- No insider shall communicate, provide or allow access to UPSI relating to company/securities listed or proposed to be listed except in furtherance of legitimate purposes, performance of duties or discharge of legal obligations.
- No person shall procure from or cause communication by any insider of UPSI except for legitimate purpose, performance of duties or discharge of legal obligations.
- No insider shall trade in securities listed or proposed to be listed when in possession of UPSI, subject to recognised defences/exceptions in regulation.
- In case involving connected person, burden shifts because connected person is presumed to have access; in cases other than connected person, burden of proof lies on SEBI as per important points.

4. Trading plan

Rule	Exact requirement
Submission	Insider submits trading plan to compliance officer for approval and public disclosure.
Commencement	Trading can commence only after 120 calendar days from public disclosure of plan.
Trade window specification	Plan specifies specific date or time period not exceeding 5 consecutive trading days.
Price limits	Buy trades allowed up to 20% higher and sale trades up to 20% lower.
Approval/rejection	Compliance officer approves or rejects within 2 trading days of receipt.
Irrevocable	Once approved, trading plan is irrevocable and must be implemented unless exception applies.

5. Disclosures of trading by insiders

Disclosure	Exact threshold / time
Initial disclosure on appointment/change	Every person on appointment as KMP/director or becoming promoter group member must disclose details within 7 days of appointment/change in status.
Continual disclosure by promoter/promoter group/designated person/director	Disclose number of securities acquired/disposed within 2 trading days if traded value exceeds Rs. 10 lakh in one transaction or series during any calendar quarter.
Company to stock exchange	Company must notify stock exchange within 2 trading days of receipt of disclosure or becoming aware.
Incremental disclosure	After one disclosure, incremental transactions are disclosed when transactions after prior

	disclosure cross Rs. 10 lakh threshold again.
Other connected persons	Listed company may require other connected persons/classes to disclose holdings and trading at frequency determined by company.
Retention	All disclosures maintained by company for minimum 5 years.

6. Structured digital database and codes

- UPSI must be preserved in a structured digital database for 8 years after completion of relevant transactions.
- Every company must publish Code of Fair Disclosure on its website as per Schedule A and intimate same to stock exchange.
- Minimum standards for code of conduct for listed companies are in Schedule B; for intermediaries/fiduciaries in Schedule C.
- Board/analogous authority in consultation with compliance officer identifies designated persons based on role, function, seniority and access to UPSI.
- Designated persons include employees with UPSI access, employees of material subsidiaries with UPSI access, all promoters of listed companies, CEO and employees up to two levels below CEO of listed company/intermediary/fiduciary and material subsidiaries, and support staff such as IT/secretarial staff with UPSI access.

7. Informant mechanism - Chapter IIIA

- Informant submits original information in Voluntary Information Disclosure Form to Office of Informant Protection (OIP) of SEBI.
- VIDF may be submitted through legal representative; if not, SEBI may require in-person appearance to ascertain identity and veracity.
- Important Points PDF states VIDF must be submitted to SEBI within 7 days through legal representative where applicable and OIP means Office of Informant Protection.
- Chapter IIIA provides procedure for reward determination and confidentiality of informants.

8. PIT penalty

Under Section 15G of SEBI Act, an insider dealing on UPSI, communicating UPSI except in ordinary course/business/legal requirement, or counselling/procuring another to trade on UPSI is liable to penalty not less than Rs. 10 lakh, extending to higher of Rs. 25 crore or 3 times the amount of profits made out of insider trading.

Companies Act vs SEBI/LODR/PIT comparison - must not mix up in exam

Area	Companies Act angle	SEBI / LODR / PIT angle
Independent director appointment	Companies Act Section 149 applies to prescribed classes of companies and listed public companies. Appointment and independence criteria under Companies Act.	LODR applies to listed entities and imposes board composition based on chairperson status, top 1000/2000 listed entities and governance requirements.
Woman director	Companies Act requires at least one woman director for prescribed class, e.g. listed companies and prescribed public companies.	LODR requires at least 1 woman director for listed entity; top 1000 listed entities must have at least 1 independent woman director.
Board minimum	Companies Act minimum directors: private 2, public 3, OPC 1; maximum 15 unless special resolution.	LODR top 2000 listed entities: not less than 6 directors.
Independent director proportion	Companies Act generally: listed public company at least 1/3 independent directors; certain public companies at least 2 IDs based on paid-up capital/turnover/borrowings thresholds.	LODR: if chairperson non-executive, at least 1/3 IDs; if chairperson not regular non-executive or is promoter/related to promoter/management, at least 1/2 IDs.
Audit committee	Companies Act Section 177 applies to prescribed companies; majority directors must be capable of reading/understanding financial statements; composition rules differ.	LODR Reg 18: minimum 3 directors, at least 2/3 independent, all financially literate, at least 1 with accounting/financial management expertise, quorum requires at least 2 independent directors.
NRC	Companies Act Section 178 applies to prescribed classes.	LODR Reg 19: minimum 3 non-executive directors, at least 2/3 independent; chairperson independent; chairperson of company can be member but not chair.
Stakeholders committee	Companies Act Section 178 threshold uses more than 1000 shareholders/debenture holders/deposit holders/other security holders at any time during FY.	LODR Reg 20 requires SRC for listed entity with minimum 3 directors, at least 1 independent, chairperson non-executive.
RPT approval	Companies Act Section 188 focuses on board/shareholder approvals for prescribed transactions, ordinary course and arm's length exceptions.	LODR Reg 23 is stricter for listed entities: audit committee approval, material RPT approval and listed-entity disclosures; related parties generally abstain from voting.
Takeover remedy	Companies Act Section 230(12) aggrieved party takeover offer application applies to companies	Listed company takeover offer is governed by SEBI SAST Regulations, not Companies Act

	other than listed companies.	takeover-offer grievance route.
Insider trading	Companies Act has broad fraud/director duties, but insider trading for listed securities is primarily SEBI Act/PIT regime.	PIT regulates UPSI communication/trading, trading plan, disclosures, SDD, informant and Section 15G penalty.

Case Scenario Booklet Integration

Case Scenario 12 - ICDR IPO checks

XYZ Ltd. planned an IPO of Rs. 2,000 crore with promoter shares partly in physical form, partly-paid shares outstanding, Rs. 300 crore for GCP, Rs. 600 crore for unidentified target investment and partnership-firm track record. Answers: promoter shares must be dematerialised before filing; Rs. 300 crore GCP is within 25% of Rs. 2,000 crore; partnership track record can be considered if financials are restated in Companies Act format and certified; partly-paid shares must be fully paid or forfeited before filing.

Case Scenario 58 - LODR audit committee and quarterly results

Venus Ltd. was listed and had audit committee of 6 members with only 3 independent directors. It failed the Regulation 18 requirement because at least 2/3 of audit committee members must be independent. Quorum for audit committee is 2 members or 1/3 of members, whichever greater, with at least 2 independent directors. Audit committee must meet at least 4 times a year with not more than 120 days between meetings. Quarterly financial results for quarter ending 30 June 2024 must be submitted within 45 days, i.e. 14 August 2024.

Case Scenario 51 - PIT UPSI, insiders and penalty

KTL's expansion plan, quarterly financial results and interim dividend were UPSI. Mr. Gopal could share UPSI only with the MD and the credit rating/statutory filing person where sharing was for legitimate purpose/performance of duties/legal obligation, not with everyone merely because someone was insider. Insider includes a connected person or anyone in possession/access to UPSI. Former MD who left 3 months ago remains connected person within the 6-month lookback. If profit from insider trading is Rs. 6.25 crore, 3 times profit is Rs. 18.75 crore, but maximum penalty is higher of Rs. 25 crore or 3 times profits; therefore maximum is Rs. 25 crore.

ICAI Test Your Knowledge digest

- Audit team leaks information that profits increased by 25% before public domain and relatives trade: it is insider trading; penalty under Section 15G is minimum Rs. 10 lakh up to higher of Rs. 25 crore or 3 times profit.
- Board meeting for interest revision of bonds: apply LODR prior-intimation rules to stock exchange before board meeting.
- Directorship in 8th listed entity after 1 April 2020: not allowed because cap is 7 listed entities.
- SAST open offer threshold: 25% or more voting rights triggers public announcement/open offer.
- SEBI member removal: insolvency, unsound mind, conviction involving moral turpitude, abuse of position detrimental to public interest; opportunity of hearing where required.
- Price manipulation/FUTP: SEBI can suspend trading, restrain market access, impound/retain proceeds, attach property/bank accounts up to 90 days subject to Special Court confirmation, direct non-alienation and levy penalties.
- Intermediary penalised under Section 15B can appeal to SAT within 45 days; further appeal to Supreme Court within 60 days on question of law.
- Stock broker defaults: failure to issue contract note, failure to deliver securities/pay amount due, excess brokerage.

What-if trigger scenarios for quick revision

Scenario	Provision triggered / answer
What if promoter shares are in physical form before IPO?	ICDR issue cannot proceed with filing as compliant; all existing securities held by promoters must be fully paid-up and dematerialised before filing offer document.
What if GCP is 30% of issue size?	Violates ICDR cap because GCP cannot exceed 25% of amount being raised.
What if GCP 20% and unidentified acquisition 20%?	Combined 40% violates 35% cap for GCP + unidentified investment/acquisition object.
What if listed entity has promoter non-executive chairperson?	At least half of board must be independent directors under LODR.
What if top 2000 listed entity board meeting has no independent director in quorum?	Quorum defective because it must include at least 1 independent director.
What if audit committee has 6 members but only 3 independent?	Defective because at least 2/3, i.e. 4 of 6, must be independent.
What if acquirer moves from 24% to 26%?	SAST initial trigger: 25% or more; open offer required.
What if acquirer with 40% acquires 6% in one	SAST creeping trigger: >5% in FY; open offer required.

financial year?	
What if acquirer gets control with only 10% shares?	Control trigger; open offer required irrespective of shareholding.
What if promoter pledges shares?	Disclosure within 7 working days to stock exchange and target company; annual encumbrance declaration also due.
What if CFO trades before quarterly results are public?	PIT violation if in possession of UPSI and no defence; Section 15G penalty.
What if UPSI is shared with auditor/credit rating agency?	Allowed only if in furtherance of legitimate purpose/performance of duty/legal obligation and captured in SDD/code compliance.
What if SEBI penalty is not paid?	Recovery Officer may attach/sell property, attach bank accounts, arrest/detention, appoint receiver; failure may also invite Section 24 punishment.

Exam traps and memory hooks

- SEBI composition memory: 1-2-1-5 = Chairman, 2 CG Ministry, 1 RBI, 5 CG nominees; at least 3 of 5 are whole-time.
- LODR board independence depends on chairperson status; do not mechanically apply Companies Act 1/3 rule to all listed-entity questions.
- Top 1000 = independent woman director; top 2000 = minimum 6 directors and board quorum rule.
- Audit committee under LODR is stricter than Companies Act: at least 2/3 independent and quorum needs 2 independent directors.
- ICDR GCP cap is 25%, but GCP plus unidentified target/investment object cap is 35%. Both must be checked.
- IPO minimum promoter contribution 20%; IPO lock-in now 18 months for minimum promoter contribution and 6 months for excess/pre-issue capital as per uploaded material.
- SAST initial trigger 25%; creeping trigger more than 5% in a financial year; control trigger independent of shareholding.
- For IGP under SAST, read 25% as 49%, 5% disclosure as 10%, 2% as 5%.
- PIT: insider is not only connected person; anyone in possession of or with access to UPSI can be insider.
- Trading plan is not immediate: trade starts only after 120 calendar days from public disclosure and compliance officer acts within 2 trading days.
- Disgorgement goes to IPEF; penalties and settlement amounts generally go to CFI as specified.
- SAT appeal is 45 days; Supreme Court appeal from SAT is 60 + 60 days on question of law.

Answer-writing templates

Template - SEBI powers question
State Section 11 duty: protect investors, promote development and regulate market. Identify facts: manipulation/insider trading/takeover/intermediary default. State SEBI powers: call information, inspect, investigate, civil court powers, issue directions, suspend trading, restrain market access, impound proceeds, attach property/bank accounts up to 90 days subject to confirmation, cease and desist, levy penalty and disgorgement. Conclude application to facts.
Template - LODR governance question
First confirm listed entity and security listed. Then test applicability threshold (top 1000/2000/HVDLE/material subsidiary). Apply board/committee composition, quorum, meeting gap, filing deadline or approval requirement. Mention exact threshold and consequence/default. Conclude compliant/not compliant.
Template - ICDR IPO question
Check eligibility under Reg 6(1): NTA Rs. 3 crore, average operating profit Rs. 15 crore, net worth Rs. 1 crore, name change 50% revenue. If not satisfied, check Reg 6(2) 75% QIB book-built route. Then apply Reg 7 general conditions: in-principle approval, demat, fully paid promoter securities, no partly-paid shares, GCP 25%, GCP+unidentified 35%, firm finance 75%. Then promoter contribution, lock-in, price band and subscription timelines.
Template - SAST open offer question
Compute acquirer + PAC holding before and after acquisition. If post-acquisition reaches 25% or more, initial trigger. If already 25% or more but below maximum non-public shareholding and acquisition exceeds 5% in financial year, creeping trigger. If control acquired, trigger irrespective of shares. Mention PA, DPS, draft LOF, SEBI comments, LOF dispatch, offer opening, tendering, payment and post-issue ad timelines.
Template - PIT question
Identify whether information is UPSI: financial results, dividend, capital structure, merger/acquisition/delisting/disposal/expansion, KMP change etc. Identify insider: connected person or possession/access to UPSI. Check if communication was for legitimate purpose/performance of duty/legal obligation. Check trading while in possession. Apply disclosure/trading plan/SDD rules and Section 15G penalty.

Source integration notes

- Important Points PDF integrated: SEBI composition, tenure, civil court powers, 90-day attachment, CIS Rs. 100 crore, LODR board/committee limits, ICDR financial thresholds, GCP caps, lock-ins, SAST disclosure/open offer timelines, PIT connected person/SDD/trading plan/disclosure limits.
- Case Scenario Booklet integrated: Case Scenario 12 (ICDR IPO), Case Scenario 58 (LODR audit committee), Case Scenario 51 (PIT), plus SEBI Test Your Knowledge questions from the SEBI chapter.
- Hemant notes integrated: quick memory-style thresholds, penalty summaries, SAT appeal flow, ICDR lock-in/offer document points, and exam-oriented distinctions.

DETAILED APPENDIX - Chapter 1 style expanded notes

This appendix expands the earlier summary into provision-by-provision notes. It is meant to prevent any section/regulation from becoming a one-line table memory point only. Use this as the detailed reading layer after the mega case studies.

Appendix A - SEBI Act, 1992 provision-by-provision expansion

Section 3 - Establishment

SEBI is not merely an administrative office. It is a body corporate with perpetual succession and a common seal. This means that the Board has a separate legal identity, can hold movable and immovable property, can enter contracts and can sue or be sued in its own name. The head office is Mumbai, and SEBI can establish offices in other places in India.

Section 4 - Board management

The general superintendence, direction and management of SEBI vest in the Board of Members. The Board structure should be remembered as 1-2-1-5: one Chairman nominated by CG, two CG Ministry officers, one RBI member and five CG nominees, at least three of whom are whole-time members. The Board can exercise all powers and do all acts which SEBI can do.

Section 5 - Tenure and relinquishment

Chairman and whole-time members hold office for a period specified in the appointment order but not exceeding five years. Reappointment is permitted. Upper age cap is 65 years. A Chairman/member may relinquish office by giving three months written notice to CG. CG also has right to terminate the services of Chairman or specified members before tenure by three months notice or salary and allowances in lieu.

Section 6 - Removal

Removal grounds are adjudged insolvent, declared unsound mind, convicted of offence involving moral turpitude, or abuse of position in the opinion of CG making continuance detrimental to public interest. The exam trap is that opportunity of being heard must be given before removal under abuse-of-position clause.

Section 7 - Meetings

SEBI meetings follow regulations regarding time, place, procedure and quorum. If Chairman is absent, members present choose one among themselves to preside. Questions are decided by majority of members present. In equality of votes, Chairman or presiding member has a second/casting vote.

Section 7A - Conflict of interest

A member who is director of a company and has indirect pecuniary interest in a matter before the Board must disclose interest as soon as possible after relevant circumstances come to knowledge. The disclosure is recorded and the member does not participate in deliberation or decision.

Section 8 - Proceedings not invalidated

Vacancy in Board, defect in constitution, defect in appointment or procedural irregularity not affecting merits does not invalidate SEBI action. This protects regulatory decisions from technical challenges.

Section 11 - Functional nucleus

SEBI duty is tripartite: protect investors, promote development and regulate securities market. Measures include regulating exchanges, intermediaries, depositories, custodians, FIIs, credit rating agencies, VCFs, CIS and mutual funds; prohibiting FUTP and insider trading; regulating takeovers; calling information; conducting inspection, inquiry and audit; coordinating with domestic/foreign authorities; levying fees and conducting research.

Section 11 - Civil court powers

When exercising specified powers, SEBI has civil court powers for discovery and production of documents, summoning/enforcing attendance, examination on oath, inspection of books/registers/documents, and issuing commissions for examination of witnesses/documents.

Section 11(4) measures

Pending or after investigation/inquiry, SEBI may suspend trading, restrain market access, prohibit buying/selling/dealing, suspend office-bearers, impound and retain proceeds/securities, attach bank accounts/property for up to 90 days and direct non-disposal of assets. Attachment must be confirmed by Special Court within 90 days.

Section 11A - Prospectus control

SEBI can regulate/prohibit prospectus, offer document or advertisement soliciting money for securities. It can prescribe issue capital, transfer of securities and disclosure norms. This is the bridge between SEBI Act and ICDR Regulations.

Section 11AA - CIS

CIS exists when investor contributions are pooled, made to receive profits/income/property, managed on behalf of investors and investors lack day-to-day control. Corpus of Rs. 100 crore or more in unregistered non-exempt pooling is deemed CIS. Exemptions include cooperative societies, NBFC deposits, insurance contracts, EPF/pension schemes, Companies Act deposits, Nidhi deposits, chit business and mutual fund subscriptions.

Section 11B - Directions

SEBI can issue directions after inquiry when required in investor interest, orderly market development, to prevent detrimental conduct of intermediaries/persons or to secure proper management. Power includes disgorgement of wrongful gains/loss avoided.

Section 11C - Investigation

SEBI may order investigation where transactions are detrimental to investors/market or intermediary/person associated with market has violated law. Persons must preserve and produce records. Investigating Authority may retain records for six months, examine on oath and seek search/seizure order. Failure/refusal attracts imprisonment up to one year or fine up to Rs. 1 crore or both plus daily fine up to Rs. 5 lakh.

Section 11D - Cease and desist

If a person has violated or is likely to violate the Act/rules/regulations, SEBI can order him to cease and desist. For listed/public companies intending to list, this is restricted unless there are reasonable grounds of insider trading or market manipulation.

Section 12 - Registration

Market intermediaries and specified persons cannot buy, sell, deal, sponsor or carry on regulated activities without SEBI certificate of registration. Suspension/cancellation requires reasonable opportunity of hearing.

Section 12A - Market abuse prohibition

This is the broad anti-fraud/insider trading/takeover breach section. It prohibits manipulative or deceptive devices, schemes to defraud, acts operating as fraud/deceit, insider trading, dealing with material non-public information, communication of such information, and acquisition of control/securities beyond prescribed thresholds.

Sections 13 to 15 - Funds and audit

CG grants, fees, charges and other receipts form SEBI General Fund. CAG audits SEBI accounts and certified accounts with audit report go annually to CG for laying before Parliament.

Sections 15A to 15HB - Penalties

These are civil monetary penalty provisions. Remember three clusters: Rs. 1 lakh + daily up to Rs. 1 crore for compliance/intermediary failures; high penalty for insider trading/takeover/FUTP; residual Section 15HB for provisions with no separate penalty.

Sections 15-I to 15JB - Adjudication/settlement

AO must be at least Division Chief. SEBI can enhance AO penalty within 3 months from AO order or disposal of appeal, whichever earlier, after hearing. Penalty factors: gain/unfair advantage, loss to investors, repetitive default. Penalties go to CFI. Settlement orders are not appealable to SAT.

Sections 15K to 15Z - SAT

SAT is the appellate forum. Appeal is within 45 days, and SAT aims to dispose within 6 months. Further appeal lies to Supreme Court on question of law within 60 days plus 60 days possible. SAT has civil court powers and is guided by natural justice, not CPC.

Sections 16 to 18 - CG control and reports

CG can issue binding policy directions after giving SEBI opportunity to express views. CG can supersede SEBI for up to 6 months in specified situations. SEBI submits annual report within 90 days after financial year end.

Sections 24 to 28B - Enforcement

Contraventions can lead to imprisonment up to 10 years or fine up to Rs. 25 crore or both. Failure to pay penalty/comply with orders has minimum imprisonment of 1 month up to 10 years or fine up to Rs. 25 crore or both. Special Courts try offences. Company contraventions create liability of company and persons in charge, subject to defences. Recovery Officer has attachment, sale, bank account, detention and receiver powers.

Appendix B - LODR expanded provisions

LODR provision	Detailed note
Regulation 5	General obligation of compliance. Listed entity must ensure compliance with obligations and disclosure requirements. In an exam answer, this is the base regulation before specific obligations.
Regulation 6	Compliance officer. Listed entity appoints qualified company secretary as compliance officer responsible for ensuring conformity with regulatory provisions, correctness and authenticity of filings and monitoring investor grievance redressal.
Regulation 7	Share transfer agent. Listed entity either has in-house share transfer facility or appoints share transfer agent. If total holders exceed prescribed internal capability, RTA appointment becomes relevant.
Regulation 13(3)	Quarterly investor grievance statement to stock exchange. It covers complaints pending at beginning of quarter, received, disposed and unresolved at quarter end.
Regulation 17	Board composition, woman director, independent director proportion, top 2000 minimum six directors, age 75 SR for NED, 4 meetings/year, 120-day gap, top 2000 quorum with at least 1 ID, compliance report review and ID evaluation.
Regulation 17A	Director cannot hold more than 7 listed-entity directorships. Person serving as MD/WTD in a listed entity can be ID in not more than 3 listed entities.
Regulation 18	Audit Committee minimum 3 directors, at least 2/3 independent, all financially literate, at least 1 accounting/financial management expert, independent chairperson, CS as secretary, 4 meetings/year, 120-day gap, quorum 2 or 1/3 with 2 IDs.
Regulation 19	NRC minimum 3 directors, all non-executive, at least 2/3 independent, chairperson independent; company chairperson may be member but not chair NRC.
Regulation 20	SRC minimum 3 directors, at least 1 ID, chairperson NED; in SR equity share entities, at least 2/3 independent.
Regulation 21	Risk Management Committee for top 1000 listed entities/HVDLE: minimum 3 members, majority directors, at least 1 ID, chairperson director.
Regulation 23	RPT governance: audit committee approval, material RPT shareholder approval, disclosure. Treat separately from Companies Act Section 188.
Regulation 24	Unlisted material subsidiary controls: listed entity ID on UMS board, audit committee review, minutes before listed board, significant transactions statement, special resolution for reducing holding to 50% or less/cessation of control, and for sale/disposal/lease of assets >20%.
Regulation 24A	Secretarial audit and secretarial compliance report requirements for listed entities and material unlisted subsidiaries as applicable in the uploaded chapter.
Regulation 26	Committee caps: not member of more than 10 committees and not chairperson of more than 5 committees. Only audit committee and SRC counted; public companies counted; private/foreign/Section 8 excluded.
Regulation 27(2)	Quarterly corporate governance report, signed by compliance officer or CEO.
Regulation 29	Prior intimation to stock exchange of board meeting for financial results, buyback, voluntary delisting, fund raising, bonus, dividend, alteration of securities/interest dates etc.
Regulation 31	Shareholding pattern: 1 day before listing, within 21 days of quarter end, within 10 days of capital restructuring resulting in >2% change in paid-up capital.
Regulation 32	Statement of deviation/variation in use of proceeds for public issue, rights issue, preferential issue etc.
Regulation 33	Quarterly and year-to-date standalone financial results within 45 days of quarter end except last quarter. Annual audited financial results within 60 days from financial year end.
Regulation 34	Annual report to stock exchange and website. Changes after dispatch to shareholders to be sent within 48 hours after AGM. BRSR provisions apply based on market-cap thresholds in uploaded material.
Regulation 42	Record date/book closure. Dividend should be recommended/declared before record date fixed for dividend purpose.
Regulation 46	Functional website with required information. Changes in website content must be updated/intimated as required.

Appendix C - ICDR expanded notes

Eligibility failure approach

If issuer fails Reg 6(1), do not automatically say IPO impossible. Check Reg 6(2): book-built issue with at least 75% of net offer allotted to QIBs. If 75% QIB allocation condition is not met, money must be refunded as per regulations.

Demat and fully paid securities

ICDR insists that promoter securities must be fully paid-up and dematerialised before filing. Existing partly-paid equity shares must either be fully paid or forfeited before filing. This is why Case Scenario 12 answer denies filing when promoters hold 10% in physical form.

General corporate purposes

GCP is allowed but capped. First test 25% of issue size. Then test combined cap of 35% for GCP plus objects where acquisition/investment target is not identified. Both limits must pass.

Partnership/LLP track record

Track record of a partnership firm or LLP can be used only if financial statements for that period conform to Companies Act format, contain adequate Schedule III disclosures and are certified by statutory auditor for Schedule III, accounting standards and true and fair view.

Offer for sale

Only fully paid securities held for at least one year can generally be offered for sale. In book-built IPO, seller holding more than 20% of pre-issue shareholding cannot sell more than 50% of his holding; seller holding less than 20% cannot sell more than 10%.

Minimum promoters contribution

20% post-issue capital is mandatory unless exempt. It ensures promoters retain skin in the game. Exclude ineligible securities while computing.

Lock-in logic

Minimum promoter contribution is locked in for 18 months. Promoter holding in excess of minimum and pre-issue capital are locked in for 6 months as per uploaded material. Pledge does not break lock-in; after invocation, transferee continues lock-in.

Offer document responsibility

Lead manager is not a forwarding clerk. It must conduct due diligence, ensure veracity of facts and adequacy of disclosure, and call upon issuer/promoters/directors/selling shareholders to meet obligations in offer document.

Pricing

Price band cap must be at least 105% and not exceed 120% of floor. Discount to RII/employees cannot exceed 10% of base price. Anchor investor price in Reg 6(2) issues cannot be lower than price to other investors.

Subscription and allotment

Minimum subscription is 90% except OFS. Issue is open at least 3 working days and not more than 10 working days. Minimum application money before first call is 25%; OFS requires 100%. Lot value range is Rs. 10,000 to Rs. 15,000. Prospective allottees must be at least 1000.

FPO reminder

FPO chapters repeat IPO-style structure: eligibility, convertible debt, promoter contribution/lock-in, offer documents, pricing, allocation/reservation, application/allotment/refund, post-issue responsibilities and green shoe. Do not ignore FPO merely because IPO is more tested.

Appendix D - SAST expanded notes

Open offer size and shareholder protection

SAST open offer is a shareholder exit-protection mechanism. Whenever an acquirer crosses initial threshold, creeping threshold or control threshold, public shareholders get an opportunity to exit at offer price. The target company board cannot remain passive; independent directors must issue reasoned recommendations.

PAC aggregation

Always aggregate acquirer + PAC holdings. If A holds 12%, B as PAC holds 10%, and A acquires 4%, combined post acquisition is 26%, not 16%; initial trigger applies.

Initial trigger example

Holding below 25% becoming 25% or more triggers open offer. Example: 24.9% to 25.1% triggers; 20% to 24.99% does not trigger initial threshold but disclosure rules may apply.

Creeping acquisition example

Once acquirer/PAC already holds 25% or more but below maximum permissible non-public shareholding, additional acquisition above 5% voting rights in one financial year triggers. 4.99% in a FY is within creeping limit; more than 5% triggers.

Control trigger example

Control can be acquired by shareholder agreement, voting rights agreement, management rights or right to appoint majority directors. Even without crossing shareholding thresholds, acquisition of control triggers open offer.

Disclosure example

Crossing above 5% shares/VR requires disclosure within 2 working days. Thereafter every change exceeding 2% since last disclosure and fall below 5% also requires disclosure. For IGP replace 5% with 10% and 2% with 5%.

Encumbrance example

Promoter pledges shares on 1 January; disclosure is due within 7 working days to stock exchange and target company. Invocation/release also has same 7 working day deadline. Annual declaration of no extra encumbrance is due within 7 working days from financial year end.

Open offer timeline memory

PA -> DPS in 5 days -> draft LOF to SEBI in 5 working days -> SEBI comments in 15 working days -> LOF dispatch in 7 days -> offer opens within 12 days -> tendering 10 days -> payment in 10 working days -> post-issue ad in 5 working days.

Voluntary open offer

Voluntary open offer may be made to acquire at least additional 10% shares, subject to regulations. It is not the same as mandatory trigger offer, but once made, conditions and restrictions apply.

Appendix E - PIT expanded notes

UPSI identification

Information must be not generally available and likely to materially affect price. The regulation gives ordinary examples: financial results, dividends, change in capital structure, mergers/demergers/acquisitions/delistings/disposals/expansion and KMP changes. In MCQs, quarterly results and interim dividend are also price-sensitive.

Need-to-know principle

Even one insider cannot casually tell another insider. Communication is allowed only where it is in furtherance of legitimate purpose, performance of duties or discharge of legal obligations. Therefore, sharing with MD/credit rating/auditor may be justified; sharing with a friend is not.

Connected person vs insider

Connected person has a 6-month lookback association test. Insider is wider: connected person OR any person in possession/access to UPSI. Thus a non-employee friend who receives UPSI can become insider for trading restriction.

Trading while in possession

Core prohibition is trading in securities listed/proposed to be listed when in possession of UPSI. The person may rely on regulatory defences where applicable, but the exam usually expects identification of violation and Section 15G penalty.

Trading plan practical effect

Trading plan permits compliant future trades but with delay and discipline: public disclosure, 120 calendar-day cooling, fixed date/period not exceeding 5 consecutive trading days, price bands and irrevocability. It prevents insiders from opportunistic trading.

Structured digital database

SDD is the evidence trail for UPSI sharing. It must capture persons with whom UPSI is shared and preserve data for 8 years after completion of relevant transaction. This point is frequently missed because it appears as a compliance control, not a definition.

Initial and continual disclosures

Initial: KMP/director/promoter group within 7 days. Continual: promoter, promoter group, designated person and director disclose to company within 2 trading days if aggregate trade value exceeds Rs. 10 lakh in a calendar quarter. Company notifies stock exchange within 2 trading days.

Code of fair disclosure and conduct

Listed company must publish code of fair disclosure on website and intimate stock exchange. Code of conduct identifies designated persons based on role/function/access, including material subsidiary employees, promoters, CEO and two levels below, and support staff with access.

Informant mechanism

Original information is submitted in VIDF to OIP of SEBI. Legal representative may submit; otherwise SEBI may require personal appearance. Confidentiality and reward mechanism encourage reporting of insider trading violations.

Penalty computation

Section 15G minimum Rs. 10 lakh. Maximum is higher of Rs. 25 crore or 3 times profit. If profit is Rs. 6.25 crore, 3x is Rs. 18.75 crore, so higher is Rs. 25 crore. If profit is Rs. 20 crore, 3x is Rs. 60 crore, so higher is Rs. 60 crore.

Appendix F - Additional descriptive Q&A for practice

Question	Answer
Q: A SEBI member has pecuniary interest in a matter before Board. What happens?	He must disclose the nature of interest as soon as possible after relevant circumstances come to knowledge; disclosure is recorded; he cannot take part in deliberation or decision on that matter. If facts also show abuse of position detrimental to public interest, CG may remove him after required process.
Q: A broker fails to issue contract notes and charges excess brokerage. Which provisions apply?	Section 15F applies. Failure to issue contract notes attracts penalty minimum Rs. 1 lakh up to Rs. 1 crore. Excess brokerage attracts minimum Rs. 1 lakh up to 5 times excess brokerage, whichever higher. Complaint may be made to SEBI.
Q: A listed company does not redress investor grievance after SEBI notice.	Section 15C: listed company/intermediary liable to minimum Rs. 1 lakh, up to Rs. 1 lakh per day, maximum Rs. 1 crore. If penalty unpaid, Section 28A recovery and Section 24 consequences may follow.
Q: A person wants to challenge SEBI penalty order.	Appeal lies to SAT within 45 days from receipt. SAT may condone delay for sufficient cause. SAT can confirm, modify or set aside order. Further appeal to Supreme Court lies on question of law within 60 days, extendable by further 60 days.
Q: Listed entity audit committee has 6 members, 3 independent.	Non-compliant. At least 2/3 members must be independent. For 6 members, at least 4 independent directors are required.
Q: An acquirer with 23% buys 1.5%.	Post acquisition 24.5%, so initial 25% open offer trigger not hit. But if disclosure thresholds under SAST are crossed/changed by more than 2% from last disclosure, disclosure may be required.
Q: Promoter creates pledge in depository.	Important Points note says disclosure requirement regarding encumbrance is not applicable where encumbrance is undertaken in a depository, but usual promoter encumbrance disclosures must be checked based on facts in module.
Q: Auditor team members share non-public profit increase information.	They are insiders/connected persons due to professional access to UPSI. Trading by recipients on such UPSI leads to insider trading analysis and Section 15G penalty.
Q: IPO company has Rs. 300 crore GCP in Rs. 2000 crore issue.	Compliant with 25% cap because Rs. 300 crore is 15% of issue size. However, also check 35% combined cap if there are unidentified acquisition/investment objects.
Q: IPO has partly paid-up old equity shares.	Existing partly paid-up equity shares must be fully paid-up or forfeited before filing offer document.