

The Companies Act, 2013

Chapter-XII Meetings of Board and Its Powers

Section 188: Related party transactions.

188. (1) Except with the consent of the Board of Directors given by a resolution at a meeting of the Board and subject to such conditions as may be prescribed, no company shall enter into any contract or arrangement with a related party with respect to—

- (a) sale, purchase or supply of any goods or materials;
- (b) selling or otherwise disposing of, or buying, property of any kind;
- (c) leasing of property of any kind;
- (d) availing or rendering of any services;
- (e) appointment of any agent for purchase or sale of goods, materials, services or property;
- (f) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
- (g) underwriting the subscription of any securities or derivatives thereof, of the company:

Provided that no contract or arrangement, in the case of a company having a paid-up share capital of not less than such amount, or transactions not exceeding such sums, as may be prescribed, shall be entered into except with the prior approval of the company by a ¹[resolution]:

Provided further that no member of the company shall vote on such ¹[resolution], to approve any contract or arrangement which may be entered into by the company, if such member is a related party:

²[Provided also that nothing contained in the second proviso shall apply to a company in which ninety per cent. or more members, in number, are relatives of promoters or are related parties:]

Provided also that nothing in this sub-section shall apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.

³[Provided also that the requirement of passing the resolution under first proviso shall not be applicable for transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the

shareholders at the general meeting for approval.]

Explanation.— In this sub-section,—

(a) the expression “office or place of profit” means any office or place—

(i) where such office or place is held by a director, if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

(ii) where such office or place is held by an individual other than a director or by any firm, private company or other body corporate, if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

(b) the expression “arm’s length transaction” means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

(2) Every contract or arrangement entered into under sub-section (1) shall be referred to in the Board’s report to the shareholders along with the justification for entering into such contract or arrangement.

(3) Where any contract or arrangement is entered into by a director or any other employee, without obtaining the consent of the Board or approval by a ¹[resolution] in the general meeting under sub-section (1) and if it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, such contract or arrangement ⁴[shall be voidable at the option of the Board or, as the case may be, of the shareholders] and if the contract or arrangement is with a related party to any director, or is authorised by any other director, the directors concerned shall indemnify the company against any loss incurred by it.

(4) Without prejudice to anything contained in sub-section (3), it shall be open to the company to proceed against a director or any other employee who had entered into such contract or arrangement in contravention of the provisions of this section for recovery of any loss sustained by it as a result of such contract or arrangement.

(5) Any director or any other employee of a company, who had entered into or authorised the contract or arrangement in violation of the provisions of this section shall,—

(i) in case of listed company, be ⁵[liable to a penalty of twenty-five lakh rupees]; and

(ii) in case of any other company, be ⁶[liable to a penalty of five lakh rupees].

Reference

*[Effective from](#) 01.04.2014.

1. Substituted by the [Companies \(Amendment\) Act, 2015](#), w.e.f. 29.05.2015[S.O. 1440(E) dated 29.05.2015], for the words "*special resolution*".
2. Inserted by the [Companies \(Amendment\) Act, 2017](#), w.e.f. 09.02.2018[S.O. 630(E) dated 09.02.2018].
3. Inserted by the [Companies \(Amendment\) Act, 2015](#), w.e.f. 29.05.2015[S.O. 1440(E) dated 29.05.2015].
4. Substituted by the [Companies \(Amendment\) Act, 2017](#), w.e.f. 09.02.2018[S.O. 630(E) dated 09.02.2018], for the words "*shall be voidable at the option of the Board*".
5. Substituted by the [Companies \(Amendment\) Act, 2020](#), w.e.f. 21.12.2020[S.O. 4646(E) dated 21.12.2020], for the words "*punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees, or with both*".
6. Substituted by the [Companies \(Amendment\) Act, 2020](#), w.e.f. 21.12.2020[S.O. 4646(E) dated 21.12.2020], for the words "*punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees*".