LOAN AND INVESTMENT BY COMPANY.
(Section 186)

Particulars	Descriptions	Remarks
Applicability	All companies "company shall unless otherwise prescribed, make investment through not more than two layers of investment companies" ***Exemption*** Provided that the provisions of this sub-section shall not affect, — • a company from acquiring any other company incorporated in a country outside India if such other company has investment subsidiaries beyond two layers as per the laws of such country; • a subsidiary company from having any investment subsidiary for the purposes of meeting the requirements under any law or under any rule or regulation framed under any law for the time being in force.	New provision
Loan and Investment	NO COMPANY SHALL DIRECTLY OR INDIRECTLY — (a) give any loan to **any person or other body corporate;** (b) give any guarantee or provide security in connection with a loan to any other body corporate or person; and (c) acquire by way of subscription, purchase or otherwise, the securities of any other body corporate, exceeding 60% of its paid-up share capital, free reserves and securities premium account or 100% of its free reserves and securities premium account, whichever is more.	Now this section is not limited to intercorporate loans and investment but its scope has been extended to loans and investment to any person also.
SR	**If above said limit exceeds than prior approval by means of a special resolution passed at a general meeting shall be necessary.**	
Disclopsure in Financial Statement	Company shall disclose in the financial statement full particulars of : • loans given, investment made or guarantee given or security provided and • the purpose for which the loan or guarantee or security is proposed to be utilised by the recipient of the loan or guarantee or security.	New provision
Approval of Board	No investment shall be made or loan or guarantee or security given by the company unless 1. Board resolution with the consent of all the directors present at the meeting and 2. The prior approval of the public financial institution concerned where any term loan is subsisting, is obtained: **Exemption from approval of the public financial institution**	

	• where the aggregate of the loans and investments so far made, the amount for which guarantee or security so far provided to or in all other bodies corporate, along with the investments, loans, guarantee or security proposed to be made or given does not exceed the limit and • there is no default in repayment of loan instalments or payment of interest thereon as per the terms and conditions of such loan to the public financial institution.	
Restriction on Market Intermediaries to make inter-corporate loan or deposits	No company, which is registered under section 12 of the SEBI Act, 1992 and covered under such class or classes of companies as may be prescribed, **SHALL TAKE INTER-CORPORATE LOAN OR DEPOSITS EXCEEDING THE PRESCRIBED LIMIT** and such company shall furnish in its financial statement the details of the loan or deposits. **Companies registered u/s 12 of the SEBI Act, 1992 are:** Stock broker, sub-broker, share transfer agent, banker to an issue, trustee of trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and such other intermediary who may be associated with securities market	New Provision
Rate of Interest	No loan shall be given under this section **at a rate of interest lower than** the **prevailing yield of one year, three year, five year or ten year Government Security closest to the tenor of the loan.**	
Restriction	No company which is in default in the repayment of any deposits accepted before or after the commencement of this Act or in payment of interest thereon, shall give any loan or give any guarantee or provide any security or **make an acquisition till such default is subsisting.**	New Provision
Register of L & I	Company giving loan or giving a guarantee or providing security or making an acquisition under this section shall keep a register. • It shall be kept at the registered office of the company and • shall be open to inspection at such office; and • extracts may be taken therefrom by any member, and copies thereof may be furnished to any member of the company on payment of fees as may be prescribed.	
Exemption fron section 186 except sub section (1)	Nothing contained in this section, except sub-section (*1*), shall apply • to a loan made, guarantee given or security provided by a banking company or an insurance company or a housing finance company in the ordinary course of its business or a company engaged in the business of financing of companies or of providing infrastructural facilities; • **to any acquisition—**	

	1. made by a Registered NBFC and whose principal business is acquisition of securities: (Exemption shall be in respect of its investment and lending activities) 2. made by a company whose principal business is the acquisition of securities; 3. of shares allotted under Section 62 (1)(a)	
	62. (*1*) Where at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares shall be offered— (*a*) to persons who, at the date of the offer, are holders of equity shares of the company in proportion, as nearly as circumstances admit, to the paid-up share capital on those shares by sending a letter of offer.	
PENALTY for contravention of the provisions of this section	**The company (fine)** Min: 25,000 Max:5,00,000 Every officer of the company who is in default: (fine and imprisonment) **FINE:** Min: 25,000 Max:5,00,000 **IMPRISONMENT** **Min: 1 day** **Max: 2 years**	Very stringent

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