

Section 186 of the Companies Act : Loans and Investments by Company

“Inter-corporate Loans, Advances, Investments and Security”



- Banking Company
- Insurance Company
- Housing Finance Company
- Company engaged in Financing for industrial enterprises or for providing infrastructural facilities
- Company giving LAIS to employee/s.

Company can make Loan, Advances, Investments or provide Security (LAIS) to body corporate or person to the extent of more of the following

1	60% x (Share Capital + Free Reserves + Securities Premium)	This ceiling is applicable to existing + proposed LAIS
2	100% x (Free Reserves + Securities Premium)	

Approval Matrix	
Board	When LAIS is within the Ceiling
Shareholders	When LAIS exceeds the Ceiling
Public Financial Institutions	a. LAIS exceeds the Ceiling or b. LAIS is within the Ceiling but the company has defaulted in the repayment of loan or interest

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Note - LAIS is not possible for the company defaulting the commitment against the public deposits for repayment of interest or deposit, till the default persist.

Income Requirement for the Company offering LAIS

Income against LAIS shall be at-least equal to annual yield as per government security closest to the period of loan (vix. 1 year, 3 years, 5 years etc.)

What to disclose in Financial Statement?	What will be the penalty for LAIS in contravention of Section 186?
1. Full particulars of LAIS 2. Purpose of LAIS	1. Company - Rs.25K/500K 2. Officer-in-charge - Rs.25K/100K + two years of imprisonment



Does Section 186 of Companies Act, 2013 applicable to company making the investment in “Mutual Funds”?

Answer - No. As Mutual Fund does not fall within the definition of body corporate/ person of Companies Act, 2013

Refer -

1. Case law on Daman Singh and ors. V. State of Punjab and ors
AIR 1985 SC 973
2. Circular No. 8(26)/2(7)/63-PR, dated 13-03-1963, issued by the Department of Corporate Affairs under the Companies Act, 1956