

## ANALYSIS OF SECTION 297, 299 & 300 OF THE COMPANIES ACT, 1956

### (PART 1)

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The provisions of Section 297, 299, 300 of the Companies Act, 1956 (“The Act”) are invariably taken into consideration when there are transactions between Group Companies or Companies under same Management to ensure proper and adequate compliance of the Act. In this Article I have made an attempt to provide all the relevant Circulars, Notifications and prominent case studies relating to these Sections in a tabular format. This is the First Part of the Series.

Sr. No.	Points of Comparison	Section 297	Section 299	Section 300
1	Subject	Board's sanction to be required for certain contracts in which particular directors are interested.	Disclosure of Interests by Director	Interested Director not to participate or vote in Board's proceedings.
2	Object of the Section	The Board of Directors (“Board”) of the Company should have the knowledge of the extent of interest of a director in any contract with the company, or of any person connected with the Director in any of the ways and accord the consent of the Board to such contract.	The underlying principle is that Directors have fiduciary duty towards the Company i.e. the Director should not make any secret profit on account of any transaction or business of a company.  This Section is based on the principle that a company should be protected against a director who has a conflict of interest and duty. The requirement is a full and frank declaration by the director.	The Directors are treated as being in fiduciary position and good faith is expected in the discharge of the duties. This provision is enacted so they would be prevented from acting in such a manner that their duty and self – interest should conflict. This Section intends to protect the interest of the company.  Narayandas Shreeram Somani V/s Sangli Bank Limited, (1965) 35 Com Cases 596: AIR 1966 SC 170.
3	Common Theme in the Three Sections	Section 297, 299 and 300 are based on the common theme of “Fiduciary Duties” of the Directors toward the Company. It includes adequate disclosure by the directors, approval of certain contracts by the Board of Directors of the Company and non participation of the Directors in voting. All these Sections aim to bring in more transparency in the working of the Company and ensuring that there is no conflict of personal interest of the Directors with their duties.		



4	Parties covered under the Section	<p>Transactions by the Company with:</p> <ol style="list-style-type: none"> <li>1) Director of the company,</li> <li>2) Relative of a Director,</li> <li>3) Firm in which a director is a partner,</li> <li>4) Firm in which relative of Director is a partner,</li> <li>5) Private company of which the Director is a Member,</li> <li>6) Private company of which the Director is a Director.</li> </ol> <p>Transactions by the Company for:</p> <ol style="list-style-type: none"> <li>1) Sale, purchase or supply of any goods, materials or services; or</li> <li>2) Underwriting the subscription of any shares in, or debentures of, the company (<i>subject to exceptions, as discussed later</i>).</li> </ol>	<p>Transactions by the Company with:</p> <ol style="list-style-type: none"> <li>1) Director of a Specified Body Corporate,</li> <li>2) Member of a Specified Body Corporate,</li> <li>3) Member of a specified Firm.</li> </ol>	<p>This Section does not mention the names of parties, as mentioned in Section 297 &amp; 299. But, it includes certain terms like “indirectly”, “concerned”, “interested” which have a very wide meaning.</p>
5	Applicability	<p>The Section is applicable to all Companies (with certain exceptions, depending upon the nature of transaction). The contract includes written &amp; oral contracts.</p>	<p>The Section is applicable to all Companies. The contract includes written &amp; oral contracts.</p>	<p>The Section is applicable to:-</p> <ol style="list-style-type: none"> <li>1) Public Company,</li> <li>2) Private Company which is a subsidiary of Public Company.</li> </ol>

**References:**

- 1) The Bare Act – Companies Act, 1956 and
- 2) Guide to the Companies Act, 1956. A Ramaiya, Sixteenth Edition (2004).

**Note:**

- 1) Sections specifically relate to the Companies Act, 1956;
- 2) Relevant Case laws, Circulars, Notifications, Letters issued by the Ministry are mentioned, wherever necessary, and same have also been summarized for brevity purpose. **(to be continued.....)**