

INTERESTED-PARTY TRANSACTIONS AND THE PROTECTION OF MINORITY MEMBERS IN LIMITED LIABILITY COMPANIES IN UZBEKISTAN: REGULATORY CHALLENGES AND PROSPECTS FOR REFORM

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Abstract. This article examines the legal mechanisms for regulating interested-party transactions and protecting minority participants in limited liability companies. Utilizing formal-legal and comparative methods grounded in the 2023 G20/OECD Principles of Corporate Governance, the study analyzes key remedies, including prior transaction approval, disclosure, and legal liability. The findings highlight that practical efficacy depends on independent decision-making and procedural safeguards. Recommendations are offered to refine mandatory disclosure standards, strengthen transaction justification requirements, and improve dispute resolution procedures.

Keywords: LLC, interested-party transactions, minority participants, corporate governance, affiliated entities, information disclosure.

1. Introduction

Transactions between a company and parties related to its shareholders or executives are a normal part of business operations. They may involve the provision of supplies, financing, leases, and intra-group services. The mere fact that a counterparty is related does not mean the transaction is unlawful. The risk arises when a person who influences the company's decisions is able to obtain a private benefit at the expense of the company or shareholders who do not have comparable influence.

In an LLC with a concentrated ownership structure, a controlling shareholder can influence the governing bodies, access to corporate information, and voting outcomes. A minority shareholder bears the economic consequences of the company's deteriorating situation but is not always able to prevent a controversial transaction on their own. Therefore, the quality of regulation is determined not only by formal approval but also by the identification of conflicts of interest, the independence of decision-making, the transparency of terms, and the effectiveness of subsequent restoration of rights.

This study is relevant in light of recent legislative updates. Law of the Republic of Uzbekistan №-1137 of April 21, 2026, entered into force on July 22, 2026. It contains separate chapters on conflicts of interest in transactions and on transactions with affiliated parties. Any analysis as of October 11, 2026, should be based primarily on the new law, while Law № 310-II of December 6, 2001, should be considered a predecessor model. [1][2]

The purpose of this article is to define the content of the current regulatory mechanism, assess whether it provides effective safeguards for minority members, and identify areas in which substantive and procedural rules require further development. To achieve this purpose, the article distinguishes the regimes governing interested-party and affiliated-party transactions, examines information and remedial rights, compares the national framework with the 2023 G20/OECD Principles of Corporate Governance, and formulates proposals for legislative and corporate practice. [3]

2. Methodology and Sources

This study is based on a formal legal analysis of Law №-1137, the Civil Code of the Republic of Uzbekistan, the Economic Procedural Code, and the 2023 G20/OECD Principles of Corporate Governance. A systematic approach is used to distinguish between the general regime for related-party transactions and the

special regime for transactions with affiliated parties. A comparative legal approach allows for an assessment of the functional compliance of national regulations with standards for disclosure, independent approval, and investor protection. [4][5]

3. Current Regulations

3.1. Related-Party Transactions

Article 49 of Law №-1137 provides that transactions in which a participant—who, alone or together with affiliated persons, holds 20 percent or more of the total number of votes—or a member of the supervisory board, a sole executive officer, or a member of a collegial executive body, may not be concluded without the consent of the general meeting of participants. A conflict of interest includes cases where the aforementioned persons, their spouses, parents, children, brothers, sisters, or affiliates are a party to the transaction or act in the interests of third parties, hold a significant interest in the legal entity that is the counterparty, or hold positions in its governing bodies.

The law requires that information regarding related legal entities and proposed or ongoing transactions in which a conflict of interest may arise be disclosed to the general meeting. A resolution is adopted by a majority of the total votes cast by participants who have no interest in the transaction. Excluding interested votes reduces the risk of a person voting directly in their own interest, but the effectiveness of this mechanism depends on the completeness of the disclosure of relationships and the correct identification of person's subject to recusal.

The law provides an exception for certain transactions conducted as part of ordinary business activities between the company and another party with whom a relationship existed prior to the emergence of the relevant conflict of interest; no special resolution is required until the date of the next general meeting. The exception is intended to ensure business continuity. It should be applied with caution, determining whether the subject matter, scope, and terms of the transaction fall within the scope of ordinary business activities or have in fact changed to such an extent that approval is required.

Article 49 provides for the possibility of a court declaring a transaction invalid in the event of a violation of the established requirements, as well as the liability of the interested party for losses caused to the company. The invalidity of a

transaction and the recovery of **damage** are distinct remedies with separate subjects of proof and legal consequences.

3.2. Transactions with Affiliates

Chapter 7 of Law № 1137 (Articles 55–59) specifically regulates affiliates and transactions with them: disclosure of information, review of proposed transactions, approval, and disputes. This is systemically important because the categories of interest and affiliation are related but not identical; a specific transaction must be reviewed in accordance with the applicable rules of both regimes.

Article 59 allows participants to challenge a transaction with an affiliated party if they disagree with the approval decision or did not participate in its adoption. At the request of a participant, the executive body is required to provide, within three business days, information about the transaction and the documents required by law: a notice of the proposed agreement, review materials, the approval decision, and a copy of the agreement, if it has already been concluded. A participant also has the right to request other information related to the transaction.

For a transaction with an affiliated party valued at 10 percent or more of net assets, the law requires that the market value of the property—as determined by a valuation firm—be considered and that the terms of the transaction be reviewed by an independent external audit firm. These measures enhance the objectivity of the valuation but do not automatically guarantee fairness: the completeness of the source data, the independence of the experts, the methodology, and the disclosure of material assumptions are all important.

3.3. Fiduciary Duties and the Status of Minority Shareholders

Article 44 establishes the fiduciary duties of members of the supervisory board and executive bodies; Article 46 governs the liability of executives for losses in cases provided for by law. These provisions should be applied in conjunction with Article 49 and the general provisions of the Civil Code regarding the good-faith and reasonable conduct of a person acting on behalf of a legal entity and compensation for losses caused to the entity.

Article 47 defines a minority shareholder as a shareholder whose vote does not influence the outcome of a vote on an agenda item. To protect the rights of minority shareholders, the corporation may establish a committee of minority shareholders; the procedure for its establishment and its powers are determined by the articles of incorporation. Article 48 establishes the obligation of a majority

shareholder not to use their dominant position for personal gain in a manner that knowingly causes harm to the corporation and other shareholders and provides for liability for damages.

The existence of these provisions does not mean that any decrease in the value of a share automatically gives rise to a right to individual compensation. It is necessary to determine who has suffered harm—the company or the shareholder directly—and to select the appropriate remedy. In the case of damage to the company’s property, the basic approach is usually a claim on behalf of the company; in the case of a violation of a shareholder’s independent right, an individual lawsuit may be filed if there are grounds for doing so.

4. Rights to Information

Protection against unfair transactions depends largely on obtaining information about the counterparty, the price, the subject matter, the business purpose, the approval process, and the performance of the contract. Without this information, a party may suspect a conflict of interest but be unable to formulate a specific claim or substantiate it. The right to information is therefore a prerequisite for effective access to justice.

The law provides for several levels of information safeguards: disclosure of information to identify conflicts of interest under Article 49; special rules regarding documents related to transactions with affiliates under Articles 56–59; and the retention of corporate documents under Article 54. Taking them together, these provisions form the basis for obtaining evidence, although the specific scope of access depends on the nature of the request and the limitations provided by law.

For practical protection, it is advisable for the party involved to send a written request specifying the transaction, the relevant documents, and the legal basis; to retain proof of delivery; and to document the response—or the lack thereof. In the event of a legal dispute, the methods for obtaining evidence provided under procedural law should be used. The potential risk stems not only from the formal lack of legal rights but also from information asymmetry: key contracts, internal calculations, and correspondence are typically held by the company or its controlling parties.

One area for improvement could be establishing a clearer procedure for accessing materials prior to the approval of a transaction, including a reasonable timeframe for review, a description of the commercial purpose, and significant

alternatives. Such requirements should be balanced against the need to protect trade secrets and avoid burdening small companies with excessive formalities.

5. Legal Remedies and Evidence

The primary remedies include challenging a transaction, challenging a decision by a governing body, and seeking damages. The choice depends on the nature of the violation: lack of required consent, a defect in the voting procedure, concealment of a conflict of interest, breach of fiduciary duties, abuse of control, or manifestly unfavorable contract terms. These grounds may overlap but are not mutually exclusive.

To have a transaction declared void, it is necessary to prove the grounds provided by law, the plaintiff's standing, and compliance with applicable procedural requirements. To recover damages, the following elements are essential: unlawful conduct, the existence and amount of damage, causation, and a basis for liability. A deviation in price from market levels may be an indicator but does not in itself always prove bad faith: the quality of the property, timing, warranties, risks, liquidity, and other terms must be considered.

An independent appraisal, an auditor's report, minutes of management meetings, correspondence, information on comparable transactions, and financial documents may be admissible as evidence. The Economic Procedural Code provides for interim relief, particularly when failure to take such measures could hinder or render impossible the enforcement of a court order. In a specific dispute, interim measures may be relevant if the further disposition of property poses a risk of irreversible consequences; they must be proportionate to the claim asserted.

Since evidence is often held by the company or the defendant, access to documents and effective court management of evidence are crucial. Without an empirical study of court rulings, it cannot be asserted that current procedures are inherently ineffective; it is more reasonable to speak of the risk of a disconnect between formal law and the actual ability to implement it.

6. Comparison with the G20/OECD Principles

The 2023 G20/OECD Principles of Corporate Governance identify related-party transactions as an area of heightened risk to the equitable treatment of investors, particularly in cases of concentrated ownership and complex corporate groups. Principle II.F requires that such transactions be approved and conducted with proper management of conflicts of interest and protection of the company and its investors. Key elements include a broad yet precise definition of related parties,

timely disclosure of material transactions, independent review, and—as a best practice—the abstention of interested parties from voting. [6]

The Uzbek model is functionally consistent with several of these guidelines: it provides for the disclosure of relationships, decisions by disinterested parties, independent review of certain material transactions, a shareholder's right to access documents, the right to challenge transactions, and liability for losses. The new law also emphasizes the protection of minority shareholders and the obligations of the majority shareholders.

At the same time, international principles emphasize not only the existence of approval but also the quality of information prior to decision-making: participants need information about the business purpose, terms, risks, and alternatives. Substantial transactions must not circumvent oversight by being broken up into smaller parts; routine transactions must be available for periodic review. For private limited liability companies, disclosure may be targeted, but it must remain practically feasible. The OECD Principles are not directly applicable law in Uzbekistan and are used here as a benchmark rather than as a model that must be followed to the letter.

7. Areas for Improvement

7.1. Aggregation of Related Transactions

It is advisable to clarify the rules for assessing an economically single transaction: to consider contracts with a single affiliated party or those made as part of an overall plan over a specified period. This will reduce the risk of splitting a single large transaction into a series of smaller ones. The time and criteria for determining interrelatedness must be defined clearly enough to avoid creating uncertainty about routine transactions.

7.2. Minimum Information Package

For a material transaction, the information package could include a description of the counterparty and the nature of the relationship, the subject matter and value of the contract, the pricing method, the commercial purpose, key risks, information on alternative proposals, and the expected benefit to the company. For regular, standard transactions, a simplified procedure is possible if criteria are established in advance and periodic reporting is required.

7.3. Independence and Rationale for Approval

The articles of incorporation and internal documents require the disclosure of conflicts of interest prior to discussion; the recusal of interested parties from the

preparation and adoption of decisions; the recording of abstentions in the minutes; and a separate justification explaining why the transaction is in the company's best interests. For material transactions, an independent opinion from an appraiser or expert may be required; in other cases, a documented comparison of market conditions may suffice.

7.4. Practical Development of Mechanisms for Minority Shareholders

The committee of minority shareholders provided for in Article 47 can serve as a channel for collectively requesting information, discussing conflicts, and making proposals. To ensure its effectiveness, the articles of incorporation should establish procedures for its formation, minimum information rights, response deadlines, and interaction with the company's governing bodies. It is advisable to keep such a mechanism flexible, without turning it into an unconditional obligation for every small LLC.

7.5. Judicial and Evidentiary Safeguards

Useful guidelines are needed on proving a stake in the matter, assessing whether terms are market-based, establishing causation, and calculating damages; clearer rules on access to documents; and the application of proportionate interim measures where there is a real risk of irreversible alienation of assets. These proposals do not imply a presumption of bad faith on the part of the controlling shareholder but are aimed at ensuring the verifiability of corporate decisions.

7.6. Proportionality of Regulation

A risk-based approach is preferable to a uniformly strict procedure for all transactions. Small, routine transactions conducted on established market terms may be subject to a simplified regime provided there is sufficient documentation and no unresolved conflict of interest. Unusual, large, long-term transactions, or those capable of significantly redistributing value, require a higher degree of scrutiny.

8. Conclusion

As of October 11, 2026, the primary source of regulation is Law №-1137 of the Republic of Uzbekistan dated April 21, 2026, which entered into force on July 22, 2026. Its provisions form a more systematic framework: Article 49 governs related-party transactions; Articles 55–59 govern transactions with affiliated parties; and Articles 44–48 establish fiduciary duties, the liability of management bodies and the majority shareholder, and the separate status of minority shareholders.

The current model includes prior approval by disinterested shareholders, disclosure of relationships, special information rights, independent valuation, and external audit of certain material transactions, as well as judicial review and compensation for damages. Therefore, it is incorrect to describe the law as completely devoid of safeguards. A more accurate conclusion is that the mere existence of formal safeguards does not, in and of itself, prove that they are equally effective in all cases.

The main issues for further improvement relate to the quality and timeliness of information, the identification of related parties, the aggregation of related-party transactions, the exclusion of interested parties from decision-making, the justification of economic feasibility, and the availability of evidence. Priorities include a minimum disclosure standard, clear rules on related-party transactions, reasoned decisions by disinterested parties, independent verification of material transactions, and the development of mechanisms for minority shareholder participation.

A final assessment of the reform's effectiveness requires further empirical research: an analysis of published court decisions, corporate charters, and the practice of applying Articles 49 and 55–59, as well as interviews with lawyers, auditors, and LLC members. This will make it possible to distinguish regulatory risks from actual problems arising in the application of the law.

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