

MCA extends dematerialisation deadline for private firms to June 30

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New Delhi

The Centre has given private companies — other than producer companies — more time to comply with an earlier diktat to dematerialise their shares. As against the earlier specified deadline of September 30, 2024, these companies can now fulfil the dematerialisation requirement by June 30 this year, according to a notification issued by the Corporate Affairs Ministry.

The MCA also earlier specifically said that no private company can issue securities or buy back its securities after September 30, 2024, until the entire holding of securities of its promoters, directors and key managerial personnel has been dematerialised. Now, this timeline has been relaxed to June 30, 2025.

Sandeep Jhunjunwala,

M&A Tax Partner at Nangia Andersen LLP, said that this extension clears the shadow of non-compliance cast on private companies who are still waiting in queue for their applications to be cleared by the depositories.

BLANKET EXTENSION

“The blanket extension appears to ringfence even those companies who hadn't filed an application seeking dematerialisation. Such companies seem to have been given an extended window to now file for dematerialisation and still be compliant with the law,” Jhunjunwala added.

In October 2023, the Ministry took a significant step in strengthening corporate governance in India by issuing a notification mandating the dematerialisation of securities for private companies. September 30, 2024, was prescribed

as the cut-off time for dematerialisation for companies mandated with the requirement under the notification.

The enforcement of the notification witnessed a slew of applications for dematerialisation with depositories, NSDL and CDSL, instantaneously increasing their task at hand. “With almost 17 lakh active private companies in India, the implementation ask on effective date being September 30, 2024, was not commensurate with the magnitude of applications requiring the depositories' attention,” Jhunjunwala added.

Manmeet Kaur, Partner - Karanjawala & Co, said, “The amended proviso to the rules relaxes the timelines for private companies to comply with dematerialisation provisions of Rule 9B by extending the period till June 30, 2025. The relaxed timelines will help

private companies comply with necessary provisions of the rules.”

The move to facilitate the dematerialisation of shares by certain categories of private companies was seen as a significant step towards ensuring the integrity of financial markets. Apart from enhancing the ease of doing business in India, this move is expected to reduce unscrupulous activities while dealing in physical shares.

Small private companies with a capital of less than ₹4 crore and turnover of less than ₹40 crore and those that are neither holding nor subsidiary companies will be spared from the burden of dematerialisation.

Demat Deadline Eased for Large Unlisted Firms

By June 30, companies are required to dematerialise their securities

Our Bureau

New Delhi: The corporate affairs ministry extended the deadline for large unlisted private companies, including unicorns, to dematerialise their shares by nine months till June 30, according to a notification issued on Wednesday.

In October 2023, the ministry had made it mandatory for these companies to issue securities in only dematerialised forms by September 2024. The rule led to a pile-up of a large number of applications for dematerialisation with depositories NSDL and CDSL, raising their workload, according to experts. The extension was required, they said, adding that more than 1.7 million private companies were registered with the corporate affairs ministry as of December 2024.

The 2023 rule change was brought in to help establish genuine beneficial ownership of high-growth stocks and crack down on shell companies often used to funnel black money, said experts.

“Provided further that a private company, other than a producer company, which is not a small company as on March 31, 2023, may comply

with the provision of this sub-rule by June 30, 2025,” the ministry said on Wednesday.

By issuing the notification with retrospective effect, “the interest of no person shall be adversely affected”, it said, while notifying changes to the Companies (Prospectus and Allotment of Securities) Rules.



Earlier Sept 2024 deadline led to pile-up of applications

“This extension clears the shadow of non-compliance cast on private companies who are still waiting in queue for their applications

to be cleared by the depositories,” said Sandeep Jhunjunwala, partner (merger and acquisition tax practices) at Nangia Andersen LLP.

The blanket extension appears to “ringfence even those companies who hadn’t filed an application seeking dematerialisation”, he added.

The compulsory electronic book-keeping of securities even for unlisted large private firms was expected to spur greater transparency in the financial market and force entities, including bigger startups, to be more disciplined in revealing their share structures, according to experts.