

LEGAL UPDATES

SEBI QUASHED PROCEEDINGS AGAINST LIQUIDATED COMPANY ALLEGING SHARES WERE ALLOCATED WITHOUT FUND INFUSION

Upon finding that the Entity (undergoing liquidation) was the subject of the adjudication proceedings for an alleged allotment of shares by the conversion of warrants made by the Entity and other promoter entities without the infusion of funds from preferential allottees, SEBI dismissed the adjudication proceedings.

Commented that the IBC's Section 33(5) prohibits the Corporate Debtor after the liquidation order from being sued or subject to legal action, SEBI thought that under Section 33(6), if a transaction is so declared by the Central Government in collaboration with any Financial Sector Regulator (FSR), the provisions of Section 33(5) would not apply,

In the complaint filed against the Entity, SEBI noted that –

- (i) The complaint claimed that the entity mostly distributed shares upon converting the warrants to workers and individuals who lacked PANs, bank accounts, or other forms of address verification.
- (ii) The corporation and its promoter companies' accounts were used to pay for the shares when warrants were converted to equity shares.

SEBI further noted that the NCLT had acknowledged a petition against the Entity for failing to repay a certain amount and had also imposed a moratorium until the conclusion of CIRP or until the resolution plan was approved, whichever came first.

Additionally, pointed out that there is no evidence on file that the Central Government conferred with any FSR to give an exception from Section 33(5) of the IBC's application to the current proceedings; SEBI believed that *"As such, there is a bar of the continuance of the proceedings...in terms of the provisions of section 33(5) of the IBC...as there is no material on*

record to show that the leave of NCLT has been taken during the course of the current proceeding.”