

LEGAL UPDATES

SAT: SAT QUASHES INR 6.5 LAC PENALTY FOR NON-ADHERENCE TO MPS

In an appeal decided by Justice T. Agarwala and Justice M T Joshi, SAT quashes INR 6.5 Lakh penalty on the appellant for non-compliance with minimum public shareholding ('MPS') requirement and violation of SEBI circulars by using the non-prescribed method to meet MPS norms. However, the Appellate Tribunal upholds INR 3 Lakhs penalty for reclassifying the promoter to a shareholder without seeking prior approval from the stock exchange. SAT noted that BIFR under SICA sanctioned a scheme for the rehabilitation of the Appellant, meanwhile, Reg. 19A of the Securities Contract Regulation Rules was introduced which delineated that listed firms were mandated to maintain an MPS of 25% of the issued share capital and a period of 3 years i.e. up to June 3 2013, was sanctioned to the entities to ensure the compliance of MPS requirement. SAT further observed that the appellant was restrained by SEBI vide an interim order, from accessing the securities market for non-compliance with MPS norms. However, SAT finds that after the BIFR scheme came to an end on December 2014, the company took instantaneous steps to conform with MPS requirements as per the applicable Rules. Thus, the appellate tribunal decided against any non-compliance with the MPS requirements. SAT further remarked that "...rehabilitation scheme was sanctioned on August 17, 2007, and, at that moment, there was no requirement to comply with the MPS requirement, otherwise, it would have become part of the scheme. The company was implementing the scheme which ran its course till December 2014. Thus, till Dec. 2014, it could not take into consideration the effect of complying with the MPS requirement". Accordingly, the appellate concluded that the Appellant has not put off fulfilling the MPS requirement in any way. in the given facts and situation. The Appellate Tribunal also asserted that sec.32 of SICA has an overriding effect over other statutes in force and implementing Rule 19A of the SCR Rules may come in the way of the implementation of the rehabilitation scheme and could contravene sec.32 of SICA. Hence, the appeal was partly accepted by SAT.