



CASE STUDY

Shareholder classified as a “promoter” of the company which defaulted in filing financial results and was later compulsorily delisted..... Freezing of demat account by NSDL acting under directives of SEBIPetition arise under Article 226 of the Constitution of India before the High Court

Facts of the Case

1. The Petitioner, a medical practitioner and senior citizen investor, held long-term investments in various listed securities through demat accounts.
2. The Petitioner had originally subscribed to shares of ABC Limited (hereinafter referred as “the company”) at the time of its incorporation in 1989. The company was promoted by his father-in-law in 1989. In that year, he subscribed to 2,000 shares of the company followed by an additional 1,000 shares in 1993. Subsequently, in 2005, a sub-division of shares in the ratio of 1:5 increased his holding to 15,000 shares. Later, in 2014, the company issued bonus shares in the proportion of 1:2, which further raised his total shareholding to 30,000 shares. The petitioner contends that he sold 9478 shares in February 2016 keeping his shareholding in the company to about 20,522 shares, which was less than 0.01% of the total paid-up share capital of the company.
3. The petitioner was classified as a “promoter” solely on account of his relationship with the chief promoter of the company though he never participated in the management or day-to-day affairs of the company.
3. In 2016–2017, the company, owing to financial issues, failed to submit quarterly financial results under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations).
4. On 2 March 2017, the Bombay Stock Exchange (BSE) issued a letter to the company regarding non-submission of financial results under Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The communication recorded that the company had failed to submit its quarterly financial results for the period ending December 2016 and, consequently, was liable to pay a fine. The company was further advised to refer to SEBI Circular dated 30 November 2015. In response, the company took up the matter with SEBI by submitting a reply dated 20 March 2017, which was addressed to both the BSE and the National Stock Exchange (NSE).
4. Pursuant to SEBI Circulars dated 30 November 2015 and 26 October 2016 prescribing Standard Operating Procedure (SOP) for non-compliance, the stock exchanges imposed fines and initiated freezing of promoter/promoter group shareholding. The matter was taken up with SEBI.
5. Acting upon communications from the stock exchanges, the depository froze the Petitioner’s demat account, including securities unrelated to the defaulting company.
6. Subsequently, the company was compulsorily delisted under the SEBI (Delisting of Equity Shares) Regulations, 2009, and the Petitioner’s demat account was marked as “Suspended for Debits”.
7. The Petitioner challenged the freezing before the Securities Appellate Tribunal and thereafter filed a writ petition before the High Court.

Submission of Petitioner:

1. He had no involvement in the affairs or functioning of the company either directly or indirectly. He was never part of its management nor did he act in any advisory capacity. His classification as a “promoter” was solely on account of his relationship with the chief promoter of the company, namely his father-in-law, a fact of which he remained unaware until June 2017, when his demat accounts were frozen by NSDL merely because he had initially subscribed to shares of the company.
2. In March 2017, upon receiving his monthly statement of accounts, he discovered that certain shares in his demat account maintained with the Stock Holding Corporation of India Limited (SHCIL) had been frozen. According to him, NSDL froze his demat account by applying SEBI Circular No. dated 30 November 2015 and 26 October 2016. The freeze extended not only to his shareholding in the company but also to his investments in other company.
3. On 4 January 2018, the petitioner addressed a detailed letter to SEBI asserting that he was never in any direct or indirect control of the company and had never held any position in the company. He emphasized that he was unaware of any alleged violation of the SEBI (LODR) Regulations by the company. The petitioner further clarified that he had been named as an investor-promoter at the time of the company’s incorporation in 1989, but had never been a director or involved in its day-to-day affairs. He contended that his demat accounts were frozen without any prior notice or opportunity of hearing, thereby depriving him of his rights without due process.
4. In these circumstances, the petitioner, aggrieved by the freezing of his demat account, preferred an appeal before the Securities Appellate Tribunal (“the Tribunal”). By its order dated 18 April 2018, the Tribunal disposed of the appeal with a direction to the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) to consider and decide upon the representation made by the petitioner. In this view of the matter, it was observed by the Tribunal that nothing survived in the petitioner’s appeal.
5. The petitioner, however, desired that the securities in the petitioner’s frozen demat account, be transferred to his other demat account. However, due to the freezing of the securities by NSDL, the securities could not be transferred and the same was sent to the ‘omnibus system’ of NSDL.

It is on such conspectus, the petitioner has filed the present petition with following contentions:

- Freezing of personal demat accounts without notice violates principles of natural justice.
- Section 11(4) of the SEBI Act permits attachment only for a limited duration and subject to reasons recorded in writing.
- Circulars cannot create substantive penal consequences beyond statutory authority.
- Freezing unrelated securities violates Articles 14 and 300A of the Constitution.
- No adjudication under Section 15-I of the SEBI Act was conducted before imposing penal consequences

Submission of SEBI and Stock Exchanges:

- SEBI is empowered under Sections 11, 11A and 30 of the SEBI Act to regulate securities market.
- LODR Regulations were validly framed and laid before Parliament.
- Promoters bear responsibility for compliance of listed companies.
- Freezing of promoter shareholding is part of enforcement mechanism under SOP circulars.
- After compulsory delisting, restrictions under Delisting Regulations apply to promoters.

The question of law for consideration before the High Court are:

1. Whether SEBI can authorize freezing of promoters’ personal demat accounts through circulars issued under the LODR Regulations?
2. Whether freezing of demat accounts without individual notice and hearing violates Articles 14, 21 and 300A of the Constitution?
3. Whether classification as “Promoter” without management control justifies coercive regulatory action?

Now decide the said legal issues in view of above facts and submissions

Disclaimer: The case study has been framed from the facts and figures available in the public domain with some modifications/assumptions so as to enable members to apply their professional skills to answer the same and hide the identity of the case. Author is not to be held liable for any resemblance of the facts and figures with any case.

Winner of Case Study – February 2026

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