



# GRC BULLETIN

AUGUST - 2025, VOLUME: II

### **Case Law**

SAT Clarifies: Company Secretaries not Personally
Liable for Financial Misstatements without
Involvement

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## JUDICIAL INSIGHT

#### **Case Title**

V. Shankar vs SEBI on 5 May, 2025 Appeal No. 283 of 2022, SAT Mumbai, order dated 5 May 2025

# SAT CLARIFIES: COMPANY SECRETARIES NOT PERSONALLY LIABLE FOR FINANCIAL MISSTATEMENTS WITHOUT INVOLVEMENT

#### **Facts**

- SEBI investigated DCHL for financial misreporting and irregularities in its buyback of shares.
- The company allegedly understated loans and interest in its annual reports (2008–09, 2009–10, 2010–11).
- Buyback was done without adequate free reserves and in excess of the 25% limit allowed under law.

#### SEBI imposed a ₹10 lakh penalty on V. Shankar for violating:

- Sections 68 & 77A of the Companies Act, 1956
- Section 12A of the SEBI Act, 1992
- Provisions of SEBI (PFUTP) Regulations, 2003.

#### **Key Allegation on V. Shankar:**

 As Company Secretary, he signed the public announcement for buyback despite the company not having adequate free reserves, thereby misleading investors.

#### **Procedural History:**

- SAT initially allowed Shankar's appeal in Nov 2022.
- SEBI challenged in the Supreme Court.
- Supreme Court remanded the matter back to SAT for a fresh decision.

#### **Issues Before the Tribunal**

- 1. Can a Company Secretary be held liable for false/misleading information in financial statements or buyback announcements if he only signed on behalf of the Board?
- 2. Did V. Shankar have **knowledge or a role** in preparing/manipulating the accounts?
- 3. Is the **duty of verifying financial accuracy** on the Company Secretary, or on Directors/Auditors?

#### SAT's Judgment (5 May 2025)

#### Finding:

- No evidence that Shankar participated in preparing false accounts.
- His role was limited to ministerial functions, which involved signing on behalf of the Board.
- The responsibility for the accuracy of financial statements lies with the Board of Directors and Auditors, not the Company Secretary (unless direct involvement is proved).

## #

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#### Decision:

- Appeal allowed.
- SEBI's penalty of ₹10 lakh set aside.
- Company Secretaries cannot be held liable for fraudulent accounts if they had no role in preparation or knowledge of wrongdoing.

#### **Key Takeaways**

- If you're a Company Secretary, signing official company documents doesn't automatically mean you're personally responsible for financial errors until and unless you were part of making those errors.
- The Board and Auditors hold primary responsibility for truthful financial statements.
- Regulators must prove actual involvement or knowledge before penalizing compliance officers.

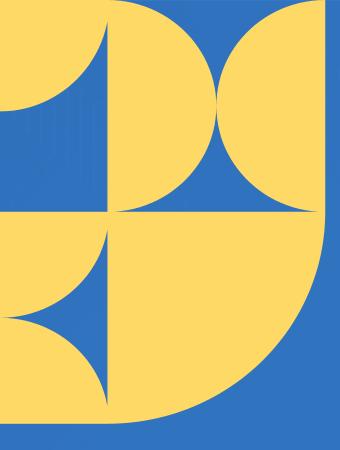
This judgment reinforces that ministerial acts are not the same as managerial liability.

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Link - https://indiankanoon.org/doc/61811236/







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