



# GRC BULLETIN

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## 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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- He had no role in the finance department and no reason to doubt audited statements vetted by the Board.

### 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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