

Breathing Room for Private Companies:

Dematerialisation Deadline Extended to June 2025

14 February 2025

Introduction

In 2023, the Ministry of Corporate Affairs (MCA), by way of amendment to Companies (Prospectus and Allotment of Securities) Rules, 2014 (PAS Rules), had introduced a requirement for the dematerialisation of shares of private companies meeting certain criteria.¹ This move aimed to enhance transparency, streamline share transfers, and improve corporate governance. However, the initial deadline for compliance, set for 30 September 2024, caused significant confusion and challenges for many companies. In response to these concerns, the MCA has recently amended the rules, extending the deadline to 30 June 2025. This article examines the background, implications, and the reasons behind this extension.

Background

Dematerialisation involves converting physical share certificates into electronic form, held in a demat account. This process eliminates the risks associated with physical certificates, such as loss, theft, or forgery. It also facilitates faster and more efficient share transfers. The PAS Rules, as amended in 2023, initially mandated that private companies, other than producer companies, that were not classified as small companies as of 31 March 2023, must dematerialise their shares by 30 September 2024.

Challenges and Concerns

This 30 September 2024 deadline posed several challenges for private companies:

- **Lack of Awareness and Preparedness:** Many companies were slow to recognize the implications of the new rules and were not adequately prepared for the transition.
- **Operational Difficulties:** The process of dematerialisation involves opening demat accounts, transferring shares, and updating company records, which can be time-consuming and complex, especially for companies with a large number of shareholders.
- **Cost Implications:** Dematerialisation involves costs associated with opening demat accounts, depository charges, and professional fees, which can be a burden for smaller companies.
- **Impact on Transactions:** The requirement for dematerialisation also created uncertainty regarding the transfer and issuance of shares in new transactions, as companies were unsure about the appropriate procedures to follow.

¹ Our detailed analysis on this amendment is available here: <https://www.khaitanco.com/thought-leaderships/Dematerialisation-of-Shares-of-Private-Companies>

Extension of Deadline

Recognizing these challenges, the MCA, through a notification dated 12 February 2025, extended the deadline for dematerialisation to 30 June 2025. This extension provides companies with additional time to comply with the rules and address the operational and logistical issues involved.

Implications of the Extension

The extension of the deadline has several implications:

- **Deemed Regularisation of Default in the Interim:** The extension allows private companies to continue operating without the fear of penalties for non-compliance during the interim period (i.e., between 30 September 2024 to 12 February 2025), effectively regularising any defaults that may have occurred before the new deadline of 30 June 2025.
- **Relief for Companies:** It provides much-needed relief to private companies, allowing them more time to prepare for dematerialisation and avoid potential penalties for non-compliance.
- **Smoother Transition:** The additional time allows for a smoother transition to the dematerialised regime, reducing disruptions to share transfers and other corporate actions.
- **Increased Compliance:** The extension is expected to lead to increased compliance with the dematerialisation requirement, as companies have more time to understand and fulfil their obligations.

Conclusion

The dematerialisation of shares is an important step towards 'ease of doing business'. It enhances security, transparency and efficiency by eliminating the risks of physical certificates, simplifying transactions, and improving regulatory compliance. That being said, experience shows that private companies and their shareholders required more time to transition. The recent amendment extending the deadline demonstrates the MCA's responsiveness to the concerns of private companies and its commitment to ensuring a smooth transition to the new regime. Companies should utilize this extension to complete the dematerialisation process and ensure compliance with the rules.

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