

CASE STUDY 1 — FCRA DEFAULT, COMPOUNDING & APPEAL

Harmony Foundation, a Delhi-based non-governmental organisation registered under the Foreign Contribution Regulation Act, 2010, is engaged in educational and rural welfare activities.

The organisation receives foreign contributions from donors located in the United Kingdom, United States and Singapore.

Mr. Rakesh Sharma was serving in the organisation in the following capacities:

Chief Financial Officer

Executive Director

Compliance Officer responsible for FCRA filings

During regulatory inspection by the Ministry of Home Affairs, the following non-compliances were observed:

Compliance Timeline

Particulars Date

FC-4 Return due for FY 2020-21 31 December 2021 FC-4 not filed — Compounding application filed 10 January 2022 Compounding approved by authority 15 February 2022 FC-4 Return due for FY 2021-22 31 December 2022 FC-4 not filed — FC-4 Return due for FY 2023-24 31 December 2024 FC-4 not filed — Adjudication order passed on CFO individually 10 February 2025

During adjudication proceedings, Mr. Sharma contended that:

External legal consultants advised that filing of FC-4 was not required since foreign contribution remained unutilised.

He relied on such professional advice in good faith.

Applicable Law: Foreign Contribution Regulation Act, 2010

Question 1 — Appellate Authority

Against the adjudication order dated 10 February 2025 passed on Mr. Rakesh Sharma, before which forum can an appeal be filed?

Options

- A. An appeal can be filed before the Civil Court having jurisdiction, subject to prior approval of the Central Government
- B. An appeal can be filed before the designated FCRA Appellate Authority as prescribed under the Act
- C. An appeal can be filed directly before the jurisdictional High Court
- D. An appeal can be filed before the National Company Law Tribunal since it involves organisational compliance

Answer B

Explanation (Exam-Pointed)

FCRA provides a specific statutory appellate mechanism.

Any person aggrieved by an adjudication order must first file an appeal before the designated Appellate Authority under FCRA.

Civil court jurisdiction is barred unless statutory remedies are exhausted.

Exam Trap

Students assume:

Civil courts handle all penalty disputes, or

High Court can be approached directly

Ignoring statutory appellate hierarchy.

Question 2 — Liability of CFO Relying on Legal Advice

Mr. Sharma argued that he relied on written legal advice stating that FC-4 filing was not required due to nil utilisation of foreign contribution.

Whether such reliance absolves him from liability?

Options

- A. Yes, reliance on professional legal advice constitutes a valid statutory defence against FCRA non-compliance
 - B. Yes, provided such advice was obtained in writing from a qualified legal practitioner
 - C. No, since designated compliance officers remain liable as officers in default notwithstanding external advice
 - D. No, unless the Board of Trustees had formally assigned filing responsibility to him
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Answer C

Explanation (Exam-Pointed)

Under FCRA, persons responsible for regulatory compliance remain liable for statutory defaults.

External legal advice does not override statutory filing obligations.

Exam Trap

Confusing “professional negligence defence” with “statutory compliance liability”.

Question 3 — Compounding of Repeat Offence

Considering that the earlier FC-4 default for FY 2020-21 was already compounded on 15 February 2022, whether the subsequent non-filing of FC-4 for FY 2021-22 and FY 2023-24 is compoundable?

Options

- A. Yes, repeat offences are compoundable subject to payment of higher compounding fees
- B. Yes, repeat offences can be compounded with prior approval of the Central Government

C. No, where the same offence is repeated within a period of three years, it becomes non-compoundable

D. No, but compounding may be allowed if sufficient cause for delay is demonstrated

Answer C

Explanation (Exam-Pointed)

Where the same offence is repeated within three years from the date of earlier compounding, the offence becomes non-compoundable.

Exam Trap

Students assume compounding is always available for procedural defaults.

CASE STUDY 2 — FEMA RESIDENTIAL STATUS & LIAISON OFFICE OPERATIONS

Mr. Arjun Mehta, an Indian-origin businessman, has been residing in Singapore for the past 12 years where he manages his international hospitality ventures.

He frequently travels to India to supervise hotel investment projects undertaken through his overseas holding entity.

His physical presence in India during the last three financial years was as follows:

Financial Year Number of Days Stayed in India

FY 2021–22 180 Days FY 2022–23 180 Days FY 2023–24 190 Days

Despite such visits, Mr. Mehta continued to:

Maintain permanent residence in Singapore

Pay income taxes in Singapore

Hold long-term business visas rather than residency permits in India

Express no intention to permanently settle in India

In addition, his overseas company XYZ Global Pte. Ltd. established a Liaison Office in Mumbai on 10 June 2023 after obtaining approval from the Reserve Bank of India.

The Liaison Office undertook the following activities:

Coordinating with Indian vendors

Representing the parent company in India

Market research and project feasibility studies

However, during inspection it was observed that the Liaison Office had accepted certain commercial payments from Indian clients toward consultancy coordination services.

Applicable Law: Foreign Exchange Management Act, 1999 and RBI Regulations governing Liaison Offices

Question 1 — Determination of Residential Status under FEMA

Based on the above facts, what shall be the residential status of Mr. Arjun Mehta under FEMA for FY 2023–24?

Options

A. He shall be treated as Resident in India since his physical stay exceeded 182 days during the financial year

B. He shall be treated as Resident in India since he stayed in India for business purposes during the year

C. He shall be treated as Non-Resident since physical stay alone is insufficient without intention to reside in India

D. He shall be treated as Resident only from the immediately succeeding financial year

Answer C

Explanation (Exam-Pointed)

Under FEMA, residential status is determined based on:

Physical presence in India, and

Intention to stay in India for an uncertain period

Temporary business visits without intention to reside do not confer residential status.

Exam Trap

Students incorrectly apply the 182-day test from the Income-tax Act instead of FEMA intention criteria.

Question 2 — Permissibility of Commercial Transactions by Liaison Office

Whether the Liaison Office of XYZ Global Pte. Ltd. was permitted to accept commercial payments from Indian clients toward consultancy coordination services?

Options

- A. Yes, Liaison Offices are permitted to accept payments where such receipts are routed through authorised dealer banks
 - B. Yes, provided the payments relate to services rendered on behalf of the parent company
 - C. No, Liaison Offices are prohibited from undertaking any commercial, trading or income-generating activities in India
 - D. No, unless specific prior approval for each transaction is obtained from the Reserve Bank of India
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Answer C

Explanation (Exam-Pointed)

Liaison Offices are permitted only to undertake:

Representation

Communication

Coordination

They are strictly prohibited from earning income or undertaking commercial operations.

Exam Trap

Students assume RBI approval to open office automatically permits revenue activities.

CASE STUDY 3 — UPSI SHARING, LEAKAGE & INSIDER TRADING LIABILITY

Delta Manufacturing Ltd., a listed company on the National Stock Exchange, was engaged in confidential merger negotiations with Orion Industrial Holdings Ltd.

The proposed merger was expected to significantly enhance market share and profitability and therefore constituted Unpublished Price Sensitive Information (UPSI) under SEBI regulations.

Access to the UPSI was restricted to senior management involved in strategic planning.

Mr. Karan Malhotra, Vice President – Corporate Strategy, was one of the designated insiders privy to the merger discussions.

On 05 January 2025, Mr. Malhotra shared details of the proposed merger with the following internal personnel:

Ms. Neha Jain — Finance Manager

Mr. Amit Suri — Head of Legal Affairs

The information was shared to enable:

Financial valuation modelling

Legal due diligence

Regulatory impact assessment

However, subsequently:

1. Ms. Jain informally discussed the merger prospects with an external financial consultant.
2. Mr. Suri shared indicative transaction details with a professional acquaintance in the investment advisory sector.
3. The information spread indirectly to multiple market participants.

4. Several traders executed advance purchase transactions in the shares of Delta Manufacturing Ltd.
5. Upon public announcement of the merger, the share price surged.
6. Investigations revealed unlawful trading profits aggregating to 10 Crores.

Applicable Law: SEBI (Prohibition of Insider Trading) Regulations, 2015

Question 1 — Whether Initial Sharing Constituted Insider Trading

Whether the act of Mr. Karan Malhotra in sharing UPSI with the Finance Manager and Head of Legal Affairs constituted insider trading?

Options

- A. Yes, since any communication of UPSI to any person is strictly prohibited under SEBI regulations
 - B. Yes, since merger-related information is absolutely restricted and cannot be shared internally
 - C. No, since the information was shared for legitimate purposes in furtherance of official duties
 - D. No, since employees of the company are exempt from insider trading restrictions
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Answer C

Explanation (Exam-Pointed)

UPSI may be shared for:

Legitimate purpose

Performance of duties

Discharge of legal obligations

Internal sharing for transaction execution is permitted.

Exam Trap

Students treat all UPSI sharing as unlawful irrespective of purpose.

Question 2 — Recording of Names in Structured Digital Database

In the given case, whose names are required to be recorded in the Structured Digital Database maintained under SEBI PIT Regulations?

Options

- A. Only the names of original insiders who first accessed the UPSI
 - B. Only employees of the company who were formally designated as insiders
 - C. All persons who received UPSI whether directly or indirectly
 - D. Only those persons who executed trades using UPSI
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Answer C

Explanation (Exam-Pointed)

The database must record details of all UPSI recipients including downstream recipients.

Exam Trap

Limiting record maintenance to employees or designated insiders only.

Question 3 — Determination of Monetary Penalty for Insider Trading

If unlawful trading profits earned by various market participants using the leaked UPSI amounted to 10 Crores, what is the maximum monetary penalty that may be imposed under SEBI regulations?

Options

- A. 10 Lakhs, being the minimum statutory penalty
- B. 10 Crores, being equivalent to the unlawful profit earned
- C. 25 Crores, being the statutory upper monetary ceiling

D. 30 Crores, being three times the unlawful profit earned

Answer D

Explanation (Exam-Pointed)

Penalty = Higher of:

25 Crores, or

Three times unlawful gains

$3 \times 10 \text{ Crores} = 30 \text{ Crores}$ Applicable.

Exam Trap

Students cap penalty at 25 Crores ignoring multiplier provision.

CASE STUDY 4 — BOARD COMPOSITION & SUBSIDIARY GOVERNANCE UNDER SEBI LODR

Zenith Technologies Ltd., an equity listed public company, is ranked among the Top 800 listed entities based on market capitalisation as on 31 March 2025.

The composition of its Board of Directors is as follows:

Particulars Number

Total Directors 10 Executive Directors 4 Non-Executive Directors (including Chairperson) 6 Woman Director 1

The Chairperson of the Board, Ms. Ritu Anand, is a Non-Executive Director and not related to the Managing Director or CEO.

Zenith Technologies Ltd. also has a subsidiary company, Zenith Infra Projects Ltd., which qualifies as a Material Subsidiary as it contributes approximately 25% to the consolidated income of the holding company.

During the course of Secretarial Audit, certain observations were raised regarding:

Adequacy of Independent Directors on the Board

Representation of holding company directors on the Board of the material subsidiary

Applicable Law: SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Question 1 — Minimum Number of Independent Directors Required

Considering the Board structure and the fact that the Chairperson is a Non-Executive Director, what is the minimum number of Independent Directors required on the Board of Zenith Technologies Ltd.?

Options

A. Minimum three Independent Directors are required since one-third of the total Board strength must comprise Independent Directors

B. Minimum four Independent Directors are required after rounding off one-third of Board strength to the next whole number

C. Minimum five Independent Directors are required since Top 1000 listed entities must have half the Board as Independent Directors

D. Minimum six Independent Directors are required since Non-Executive Chairperson necessitates majority independence

Answer A

Explanation (Exam-Pointed)

Where the Chairperson is a Non-Executive Director, at least one-third of the Board must comprise Independent Directors.

One-third of 10 = 3.33 Minimum compliance satisfied with 3.

Exam Trap

Students incorrectly round off 3.33 to 4 though regulation prescribes minimum proportion, not rounding mandate.

Question 2 — Representation on Board of Material Subsidiary

In relation to Zenith Infra Projects Ltd., the material subsidiary, which of the following statements correctly reflects the regulatory requirement for Board representation?

Options

- A. Any one director from the holding company Board may be nominated to the Board of the material subsidiary
- B. At least one Independent Director of the holding company must be appointed on the Board of the material subsidiary
- C. The Chief Financial Officer of the holding company must compulsorily be appointed on the subsidiary Board
- D. The Woman Director of the holding company must necessarily be appointed on the subsidiary Board

Answer B

Explanation (Exam-Pointed)

SEBI LODR mandates that at least one Independent Director of the holding company must be on the Board of an unlisted material subsidiary.

Exam Trap

Students assume any director representation satisfies compliance instead of Independent Director requirement.

---CASE STUDY 5 — COMMITTEE OF CREDITORS MEETINGS & PROCEDURAL COMPLIANCES UNDER IBC

An application for initiation of Corporate Insolvency Resolution Process (CIRP) was admitted by the National Company Law Tribunal against Omega Engineering Ltd., a company engaged in heavy industrial fabrication.

Pursuant to admission of the insolvency application, an Interim Resolution Professional (IRP) was appointed who subsequently constituted the Committee of Creditors (CoC) comprising nine financial creditors representing 100% of the voting share.

The constitution of the CoC was formally completed on 01 August 2024.

During the CIRP, several procedural issues arose concerning:

Timeline for convening the first CoC meeting

Frequency and gap between subsequent meetings

Quorum requirements

Minimum creditor threshold to requisition a meeting

Notice period for convening meetings

Applicable Law: Insolvency and Bankruptcy Code, 2016 and CIRP Regulations

Question 1 — Timeline for First Meeting of Committee of Creditors

Within what period from the date of constitution of the Committee of Creditors must the Interim Resolution Professional convene the first meeting of the CoC?

Options

- A. Within 7 days from the date of constitution of the Committee of Creditors
 - B. Within 30 days from the date of constitution of the Committee of Creditors
 - C. Within 45 days from the date of constitution of the Committee of Creditors
 - D. Within 60 days from the date of constitution of the Committee of Creditors
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Answer B

Explanation (Exam-Pointed)

The first CoC meeting must be convened within 30 days of its constitution.

Exam Trap

Students confuse CoC timelines with Board meeting timelines.

Question 2 — Maximum Gap Between Two CoC Meetings

What is the maximum permissible gap between two meetings of the Committee of Creditors where the CoC exercises its discretion to extend meeting intervals?

Options

- A. Meetings must be held at least once every month without exception
- B. Meetings must be held at least once every two months
- C. Meetings must be held at least once in every quarter
- D. There is no statutory limit on the gap between two meetings

Answer C

Explanation (Exam-Pointed)

CoC may extend meeting intervals but must hold at least one meeting every quarter.

Exam Trap

Assuming monthly meetings are mandatory.

Question 3 — Quorum Requirement for CoC Meeting

What is the minimum quorum required for conducting a valid meeting of the Committee of Creditors?

Options

- A. Creditors representing at least 10% of the voting share must be present in person
 - B. Creditors representing at least 25% of the voting share must be present either in person or through electronic means
 - C. Creditors representing at least 33% of the voting share must be present either in person or through video conferencing or other audio-visual means
 - D. Creditors representing at least 50% of the voting share must be present physically at the meeting venue
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Answer C

Explanation (Exam-Pointed)

Minimum quorum = 33% of voting share present either physically or through electronic participation.

Exam Trap

Students apply Board meeting quorum or headcount instead of voting share.

Question 4 — Requisition of CoC Meeting by Creditors

What is the minimum number of creditors required to requisition the Resolution Professional to convene a meeting of the Committee of Creditors?

Options

- A. Creditors representing at least 10% of the voting share
 - B. Creditors representing at least 25% of the voting share
 - C. Creditors representing at least 33% of the voting share
 - D. Creditors representing at least 50% of the voting share
-

Answer C

Explanation (Exam-Pointed)

Creditors holding at least 33% voting share may requisition a CoC meeting.

Exam Trap

Students assume majority voting share required.

Question 5 — Notice Period for CoC Meeting

What is the minimum notice period required to be given for convening a meeting of the Committee of Creditors?

Options

- A. Seven days' prior written notice must be given for every CoC meeting
 - B. Five days' prior written notice must be given, which may be reduced to 24 hours in urgent situations
 - C. Three days' prior written notice is sufficient for all CoC meetings
 - D. Twenty-four hours' notice is mandatory and cannot be extended
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Answer B

Explanation (Exam-Pointed)

Standard notice = 5 days. May be reduced to 24 hours. If Authorised Representative involved minimum 48 hours.

Exam Trap

Students ignore reduced notice provisions or AR exception.

---CASE STUDY 6 — INSOLVENCY COMMENCEMENT & LIQUIDATION (DATE-BASED PROCEDURAL DETERMINATION)

A financial creditor filed an application under Section 7 of the Insolvency and Bankruptcy Code, 2016 against XYZ Ltd. before the National Company Law Tribunal (NCLT), Mumbai Bench, seeking initiation of Corporate Insolvency Resolution Process (CIRP).

During the admission stage, multiple procedural events occurred before the matter reached final admission and later liquidation.

The chronology of events is reproduced below:

Event Date

Insolvency Application filed before NCLT 10 January 2024
Defect Notice issued by NCLT Registry 18 January 2024
Corrected Application re-submitted 25 January 2024
Application admitted by NCLT 05 February 2024
Interim Resolution Professional appointed 08 February 2024
Liquidation Order passed by NCLT 30 September 2024

During CIRP, no resolution plan was approved within the prescribed timeline, and consequently liquidation proceedings were initiated.

Applicable Law: Insolvency and Bankruptcy Code, 2016

Question 1 — Determination of Insolvency Commencement Date

For the purpose of computation of CIRP timelines, what shall be regarded as the Insolvency Commencement Date in the given case?

Options

- A. 10 January 2024, being the date on which the insolvency application was originally filed before the NCLT
 - B. 25 January 2024, being the date on which the defect-free application was re-submitted before the NCLT Registry
 - C. 05 February 2024, being the date on which the application was admitted by the NCLT
 - D. 08 February 2024, being the date on which the Interim Resolution Professional was formally appointed
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Answer C

Explanation (Exam-Pointed)

Insolvency Commencement Date is the date on which the insolvency application is admitted by NCLT.

Filing date, defect correction date and IRP appointment date do not trigger CIRP commencement.

Exam Trap

Students incorrectly consider:

Filing date, or

IRP appointment date

as commencement triggers.

Question 2 — Requirement of Prior Approval Before Passing Liquidation Order

Before passing the liquidation order dated 30 September 2024, whose prior approval was statutorily required to be obtained by the Adjudicating Authority?

Options

- A. Prior approval of the Central Government, since liquidation results in closure of the corporate entity
- B. Prior approval of the Insolvency and Bankruptcy Board of India, being the regulatory authority governing insolvency professionals
- C. No prior approval of any external authority is required before passing liquidation order
- D. Prior approval of the Registrar of Companies where the corporate debtor is registered

Answer C

Explanation (Exam-Pointed)

NCLT may order liquidation:

On failure of CIRP, or

On CoC recommendation

No external regulatory approval is required.

Exam Trap

Students assume IBBI or Central Government approval due to seriousness of liquidation.

Question 3 — Statutory Time Limit for Completion of CIRP

Within what statutory period must the Corporate Insolvency Resolution Process ordinarily be completed under the Insolvency and Bankruptcy Code, 2016?

Options

- A. Within 90 days from the Insolvency Commencement Date without any extension
 - B. Within 180 days from the Insolvency Commencement Date, extendable in specified circumstances
 - C. Within 270 days from the Insolvency Commencement Date without requiring any approval
 - D. Within 330 days from the Insolvency Commencement Date in all cases without exception
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Answer B

Explanation (Exam-Pointed)

Base CIRP period = 180 days. Extension permissible subject to statutory approvals.

Exam Trap

Students confuse:

Base period (180 days)

Extended period (270 days)

Outer cap (330 days)

---CASE STUDY 7 — INSIDER TRADING, MARKET RUMOUR MANIPULATION & INTERMEDIARY DUE DILIGENCE FAILURE

Apex Infrastructure Ltd., a company listed on the Bombay Stock Exchange and National Stock Exchange, was engaged in confidential negotiations with the Ministry of Road Transport and Highways for securing a major national highway construction contract valued at approximately 4,500 Crores.

The information relating to the award of this government contract was classified as Unpublished Price Sensitive Information (UPSI) as it was likely to materially impact the share price of the company upon public disclosure.

Mr. Vikram Sethi, Vice President – Strategy, was part of the core negotiation and bid structuring team and had legitimate access to this UPSI.

The following sequence of events subsequently occurred:

1. Mr. Sethi internally shared the UPSI with members of the Finance and Legal teams for execution planning and compliance evaluation.
2. One of the internal recipients indirectly leaked the information to external market participants.
3. Separately, Mr. Rohit Khanna, an external market operator, deliberately circulated false rumours in the securities market that Apex Infrastructure Ltd. had failed to secure the government contract.
4. Due to such rumours, the share price of the company declined significantly.
5. Mr. Khanna accumulated substantial quantities of shares at depressed prices.
6. Upon official announcement of contract award, the share price surged sharply, enabling Mr. Khanna to earn abnormal trading gains.
7. During investigation, SEBI also observed that the Merchant Banker associated with a concurrent fund-raising transaction of Apex Infrastructure Ltd. had failed to conduct adequate due diligence while certifying disclosures.

Applicable Law: SEBI (Prohibition of Insider Trading) Regulations, 2015 SEBI Act, 1992 SEBI (Merchant Bankers) Regulations

Question 1 — Regulatory Action for Insider Trading Violations

In respect of insider trading arising from leakage and misuse of UPSI in the above case, what action can SEBI initiate?

Options

- A. SEBI cannot initiate action since the leakage occurred internally within the organisation
 - B. SEBI may impose only monetary penalty but cannot initiate criminal prosecution
 - C. Insider trading constitutes only a criminal offence punishable with imprisonment but no civil penalty can be imposed
 - D. SEBI may impose monetary penalties and also initiate criminal prosecution leading to imprisonment
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Answer D

Explanation (Exam-Pointed)

Insider trading attracts:

Civil consequences (monetary penalties)

Criminal prosecution (imprisonment)

Exam Trap

Students assume insider trading leads to either civil or criminal action — not both.

Question 2 — Liability for Spreading False Market Rumours

With reference to Mr. Rohit Khanna spreading false rumours to depress share prices before acquiring shares, what regulatory action is permissible?

Options

- A. No action can be taken since rumours are considered normal market speculation
 - B. Only a warning may be issued since no insider trading was directly involved
 - C. Monetary penalty may be imposed but imprisonment is not permissible
 - D. Monetary penalty and prosecution for fraudulent and unfair trade practices may be initiated
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Answer D

Explanation (Exam-Pointed)

Spreading false information to manipulate share prices constitutes market fraud under SEBI regulations.

Exam Trap

Students distinguish rumour spreading from securities fraud liability.

Question 3 — Liability of Merchant Banker for Due Diligence Failure

If the Merchant Banker failed to conduct proper due diligence while certifying disclosures in a capital raising transaction, what action may SEBI take?

Options

- A. SEBI may impose only monetary penalty on the Merchant Banker
 - B. SEBI may suspend or cancel the certificate of registration of the Merchant Banker
 - C. Only criminal prosecution may be initiated without affecting registration
 - D. No action may be taken where negligence was unintentional
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Answer B

Explanation (Exam-Pointed)

SEBI has power to:

Suspend licence

Cancel registration

Impose penalties

Exam Trap

Students limit consequences to fines only.

Question 4 — Appeal Against SEBI Order

Within what period and before which forum can an aggrieved person file an appeal against an order passed by SEBI in the above matter?

Options

- A. Appeal may be filed before the Securities Appellate Tribunal within 45 days from the date of receipt of order
- B. Appeal may be filed before the Securities Appellate Tribunal within 60 days from the date of order

C. Appeal may be filed before the jurisdictional High Court within 90 days

D. Appeal may be filed before the High Court within 45 days from the date of receipt of order

Answer A

Explanation (Exam-Pointed)

First appeal lies before SAT within 45 days.

Exam Trap

Forum confusion between SAT and High Court.

Question 5 — Identification of Immediate Relatives for UPSI Sharing

During investigation it was observed that Mr. Vikram Sethi had shared UPSI with the following persons:

His wife

His wife's brother

His wife's brother's daughter

The wife's brother subsequently shared the information with a personal friend.

Which of the following persons would be classified as "Immediate Relatives" under SEBI PIT Regulations?

Options

A. Only the spouse of Mr. Sethi

B. The spouse and the spouse's brother

C. The spouse, spouse's brother and his daughter

D. All persons including the friend who ultimately received the information

Answer A

Explanation (Exam-Pointed)

Immediate relatives include:

Spouse

Dependent parents

Dependent children

Extended relatives and friends are excluded.

Exam Trap

Students extend definition to extended family members.

CASE STUDY 8 — APPOINTMENT OF DIRECTOR & MANAGERIAL REMUNERATION (EFFECTIVE CAPITAL BASED LIMITS)

Stellar Motors Ltd., a public company engaged in automobile component manufacturing, appointed Mr. Amit Verma as a Whole-Time Director designated as Director – Operations with effect from 01 April 2024.

The appointment was approved by the Board of Directors and the company proceeded to intimate the Registrar of Companies regarding such appointment.

During the financial year 2024–25, the company paid managerial remuneration as under:

Category of Director Amount Paid (Lakhs)

Whole-Time Director — Mr. Amit Verma 135 Lakhs
Non-Executive Director — Ms. Kavita Rao 30 Lakhs

The Effective Capital of Stellar Motors Ltd. as per Schedule V computation stood at 312 Crores.

During Secretarial Compliance Review, questions were raised regarding:

Correct ROC filing form for director appointment

Permissibility of remuneration paid considering effective capital slab limits

Applicable Law: Companies Act, 2013 read with Schedule V

Question 1 — ROC Form for Intimation of Director Appointment

In which prescribed form is the appointment of Mr. Amit Verma required to be intimated to the Registrar of Companies?

Options

- A. Form MR-1, being the return of appointment of Key Managerial Personnel
- B. Form MR-2, being the application to Central Government for approval of managerial remuneration
- C. Form MGT-7, being the annual return of the company
- D. Form DIR-12, being the form for appointment or change in directors and key managerial personnel

Answer D

Explanation (Exam-Pointed)

Form DIR-12 is filed for:

Appointment of directors

Resignation

Change in designation

Exam Trap

Students confuse MR-1 (KMP return) with director appointment filings.

Question 2 — Permissibility of Managerial Remuneration Paid

Considering the effective capital of 312 Crores and the remuneration paid during the financial year, which of the following statements is correct?

Options

- A. Both the remuneration paid to the Whole-Time Director and the Non-Executive Director are within permissible limits prescribed under Schedule V

B. Remuneration paid to the Whole-Time Director exceeds the permissible limit applicable to the effective capital slab, while remuneration paid to the Non-Executive Director remains within permissible limits

C. Remuneration paid to the Non-Executive Director exceeds the permissible limit while remuneration paid to the Whole-Time Director remains within permissible limits

D. Both payments exceed the permissible managerial remuneration limits prescribed under the Companies Act, 2013

Answer B

Explanation (Exam-Pointed)

For effective capital of 250 Crores to 500 Crores:

Maximum yearly remuneration payable without Central Government approval = 128 Lakhs.

Whole-Time Director paid 135 Lakhs Exceeds limit.

Non-Executive Director remuneration within permissible ceiling.

Exam Trap

Students ignore effective capital slabs and apply profit percentage limits instead.
CASE STUDY 9 — MINORITY SHAREHOLDER OBJECTION & VALUATION DISPUTE IN AMALGAMATION

Fusion Technologies Ltd., a listed holding company, proposed a Scheme of Amalgamation with its wholly-owned but operationally independent subsidiary, Spark Innovations Ltd., under Sections 230–232 of the Companies Act, 2013.

The amalgamation scheme provided for a share swap ratio determined on the basis of an independent valuation report issued by a SEBI-registered Merchant Banker.

Under the scheme:

Shareholders of Spark Innovations Ltd. were to receive equity shares of Fusion Technologies Ltd. in exchange for their existing shareholding.

The swap ratio was fixed based on asset valuation, projected earnings and discounted cash flow analysis.

During shareholder review of the scheme, certain minority shareholders of Spark Innovations Ltd. raised objections alleging:

The valuation report undervalued the subsidiary company.

The swap ratio was prejudicial to minority shareholders.

Material financial projections were not adequately factored in valuation.

These minority shareholders sought legal recourse to challenge the scheme before approval by the Tribunal.

Applicable Law: Companies Act, 2013 — Sections 230 to 232

Question 1 — Minimum Threshold for Minority Objection

What is the minimum shareholding threshold required for minority shareholders to raise objections to the Scheme of Amalgamation before the Tribunal?

Options

- A. Shareholders holding not less than 5% of the total shareholding may raise objections to the scheme
 - B. Shareholders holding not less than 10% of the total shareholding may raise objections to the scheme
 - C. Shareholders holding not less than 15% of the total shareholding may raise objections to the scheme
 - D. Shareholders holding not less than 25% of the total shareholding may raise objections to the scheme
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Answer B

Explanation (Exam-Pointed)

Under the Companies Act, objections to a scheme of arrangement or amalgamation may be raised by shareholders holding at least 10% of the shareholding.

Exam Trap

Students confuse this threshold with oppression and mismanagement limits.

Question 2 — Course of Action Where Valuation Is Alleged to Be Defective

If minority shareholders establish prima facie evidence that the valuation report suffers from material defects, what course of action is legally permissible?

Options

- A. No action may be taken once the valuation report is submitted with the scheme documents
 - B. The scheme may proceed with implementation subject to disclosure of valuation concerns in explanatory statements
 - C. The aggrieved shareholders may approach the National Company Law Tribunal seeking review or revision of the valuation methodology
 - D. The amalgamation scheme shall automatically stand cancelled upon receipt of minority objections
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Answer C

Explanation (Exam-Pointed)

NCLT has jurisdiction to:

Examine fairness of valuation

Seek revised valuation

Protect minority interests

Exam Trap

Students assume valuation reports are final and non-reviewable once issued.

---CASE STUDY 10 — POLITICAL CONTRIBUTIONS, ELECTORAL TRUST DONATION & STATUTORY LIMIT COMPUTATION

ABC Infrastructure Ltd., a public company engaged in urban infrastructure development, made certain political contributions during the financial year 2024–25.

The net profits of the company for the three immediately preceding financial years were as follows:

Financial Year Net Profit (Lakhs)

FY 2023–24 100 Lakhs FY 2022–23 400 Lakhs FY 2021–22 400 Lakhs

Average Net Profit = 300 Lakhs.

During FY 2024–25, the company undertook the following expenditures:

1. 10 Lakhs contributed to an Electoral Trust Company duly registered under applicable regulations.
2. 15 Lakhs spent on advertisement campaigns in print and digital media indirectly promoting a recognised political party.
3. The Board of Directors passed a resolution approving both expenditures.
4. The Electoral Trust contribution was recorded in the books of accounts but was not specifically disclosed in the Profit & Loss Account under political contribution disclosure.

During statutory audit, compliance under Section 182 of the Companies Act, 2013 was examined.

Applicable Law: Companies Act, 2013 — Section 182 (Political Contributions)

Question 1 — Validity of Contribution to Electoral Trust

Whether the contribution of 10 Lakhs made to the Electoral Trust Company is valid under the Companies Act, 2013?

Options

- A. Invalid, since political contributions require approval by Ordinary Resolution in a General Meeting of shareholders
- B. Valid, since political contributions may be made pursuant to approval of the Board of Directors

C. Valid, since Board approval is sufficient and disclosure in financial statements is optional

D. Invalid, since although Board Resolution was passed, disclosure of political contribution in the Profit & Loss Account is mandatory

Answer D

Explanation (Exam-Pointed)

Compliance for political contribution requires:

Board Resolution approval, and

Mandatory disclosure in Profit & Loss Account

Failure to disclose Non-compliance.

Exam Trap

Students assume approval alone completes statutory compliance.

Question 2 — Determination of Permissible Limit of Political Contribution

Considering the political contributions and advertisement expenditure incurred during the financial year, whether the company has complied with the permissible statutory limit?

Options

A. Both the Electoral Trust contribution and advertisement expenditure are within the permissible limit of 7.5% of the average net profits

B. Only the Electoral Trust contribution is within the permissible statutory limit

C. Only the advertisement expenditure qualifies within the permissible statutory limit

D. The aggregate political contributions and related expenditure exceed the permissible statutory ceiling prescribed under law

Answer D

Explanation (Exam-Pointed)

Permissible limit = 7.5% of 300 Lakhs = 22.5 Lakhs.

Total contribution = 10 Lakhs + 15 Lakhs = 25 Lakhs Exceeds limit.

Political contributions must be aggregated for limit computation.

Exam Trap

Students evaluate each contribution independently instead of aggregating all political expenditures.

CASE STUDY 11 — NCLT PROCEEDING TIMELINE, MANAGERIAL REMUNERATION (INADEQUATE PROFITS) & RELATED CORPORATE ACTIONS

Vertex Engineering Ltd., a public company engaged in heavy machinery manufacturing, filed an application before the National Company Law Tribunal (NCLT) seeking approval of a Scheme of Arrangement involving restructuring of certain business divisions.

During the course of proceedings, several legal and governance issues arose relating to:

Statutory timeline for disposal of applications by NCLT

Managerial remuneration paid during a year of inadequate profits

Minority shareholder objection rights in scheme matters

Remedial powers of the transferee company in case of defective valuation

The relevant facts are summarised below:

1. The application under Sections 230–232 was admitted by NCLT for hearing.
2. The financial year under consideration reflected inadequate profits as per Section 198 computation.
3. The company had only one Whole-Time Director during the year.

4. Remuneration paid to the Whole-Time Director exceeded 5% of net profits.
5. Minority shareholders raised objections alleging valuation defects in the restructuring scheme.

Applicable Law: Companies Act, 2013 — Sections 197, 198, Schedule V, Sections 230–232

Question 1 — Statutory Timeline for Disposal of NCLT Application

Within what period is the National Company Law Tribunal required to dispose of an application and pass an order under the Companies Act, 2013?

Options

- A. Within 90 days from the date of filing of the application without any extension
 - B. Within 90 days from the date of filing, extendable by a further period of 30 days
 - C. Within 90 days from the date of filing, extendable by a further period not exceeding 60 days
 - D. Within 180 days from the date of filing without any provision for extension
-

Answer C

Explanation (Exam-Pointed)

NCLT must dispose of applications within:

90 days base period

Extension up to 60 days permitted

Exam Trap

Students confuse this with IBC timelines.

Question 2 — Managerial Remuneration in Case of Inadequate Profits

During the financial year of inadequate profits, the company paid remuneration to its sole Whole-Time Director exceeding 5% of net profits.

Whether such payment is permissible?

Options

- A. Not permissible, since remuneration to one Whole-Time Director cannot exceed 5% of net profits under any circumstances
 - B. Not permissible, since where profits are inadequate, no managerial remuneration may be paid
 - C. Permissible, provided remuneration is paid within limits prescribed under Schedule V of the Companies Act, 2013
 - D. Permissible only after obtaining prior approval of the Central Government in all cases
-

Answer C

Explanation (Exam-Pointed)

Where profits are inadequate, remuneration may be paid as per Schedule V limits without Central Government approval subject to compliance conditions.

Exam Trap

Students apply profit percentage caps even in inadequate profit years.

Question 3 — Minority Shareholder Objection Threshold

In relation to the Scheme of Arrangement, what minimum shareholding is required for minority shareholders to raise objections before the Tribunal?

Options

- A. Shareholders holding not less than 5% of shareholding
 - B. Shareholders holding not less than 10% of shareholding
 - C. Shareholders holding not less than 15% of shareholding
 - D. Shareholders holding not less than 25% of shareholding
-

Answer B

Explanation (Exam-Pointed)

10% shareholding threshold required to object to scheme.

Exam Trap

Confusing with oppression/mismanagement thresholds.

Question 4 — Action Available Where Valuation of Transferor Company Is Defective

If the transferee company believes that valuation of the transferor company under the scheme is materially defective, what action may it take?

Options

- A. No action may be taken once the valuation report is submitted along with the scheme
 - B. The scheme must proceed notwithstanding valuation discrepancies
 - C. The company may approach NCLT seeking correction or reconsideration of valuation
 - D. The scheme stands automatically cancelled upon discovery of valuation defects
-

Answer C

Explanation (Exam-Pointed)

NCLT has authority to examine fairness and correctness of valuation in schemes.

Exam Trap

Assuming valuation reports are final and binding without review.

Understood. Pure locked exam format below — Individual Questions only. No commentary outside structure. Ready for direct copy-paste.

INDIVIDUAL QUESTION Following Questions were also asked as case study, but as of now I don't remember the case study and hence giving them a individual questions

Question 1 — Vacancy in Office of Key Managerial Personnel

The Company Secretary of a listed public company resigned from office on 01 January 2024. The Board of Directors took note of the resignation in its subsequent meeting.

However, the company did not appoint a replacement Company Secretary until 15 July 2024.

Whether the vacancy in the office of Key Managerial Personnel has been validly filled in compliance with the Companies Act, 2013?

Options

- A. The vacancy is valid since the Companies Act does not prescribe any specific time limit for filling a vacancy in the office of Key Managerial Personnel
 - B. The vacancy is valid provided the Board of Directors has approved the delay in filling the position
 - C. The vacancy is invalid since any vacancy in the office of Key Managerial Personnel must be filled within six months
 - D. The vacancy is invalid only where the company is listed, and such time limit does not apply to unlisted companies
-

Answer C

Explanation (Exam-Pointed)

Vacancy in the office of KMP must be filled within six months from the date of occurrence of vacancy.

Exam Trap

Students assume appointment timelines differ from vacancy-filling timelines.

Question 2 — Liberalised Remittance Scheme Limit

Under the Liberalised Remittance Scheme (LRS) prescribed by the Reserve Bank of India, what is the maximum amount that a resident individual may remit outside India during a financial year?

Options

- A. USD 100,000 per financial year
 - B. USD 250,000 per financial year
 - C. USD 350,000 per financial year
 - D. USD 500,000 per financial year
-

Answer B

Explanation (Exam-Pointed)

RBI permits resident individuals to remit up to USD 250,000 per financial year under LRS.

Exam Trap

Students recall outdated limits or assume higher ceilings.

Question 3 — Classification of Gift to Relative Abroad

Mr. Rajiv, a resident individual engaged in the hotel business, remitted USD 1,500 to his sister residing in Canada as a personal financial gift.

How will this transaction be classified under FEMA, and whether prior approval is required?

Options

- A. It is a Current Account Transaction and is permitted without prior approval under LRS
- B. It is a Capital Account Transaction and is permitted without prior approval
- C. It is a Current Account Transaction requiring prior approval of RBI

D. It is a Capital Account Transaction requiring prior approval of RBI

Answer A

Explanation (Exam-Pointed)

Gifts to relatives abroad fall under permissible remittances under LRS and are treated as current account transactions.

Exam Trap

Students classify gifts as capital transfers.

Question 4 — Commission on Inward Remittance

Commission payable to an intermediary in India for sale of property to a non-resident is restricted to 5% of inward remittance or USD 25,000 whichever is lower.

In a particular transaction, inward remittance received was USD 600,000.

Whether prior approval is required for payment of commission?

Options

- A. No approval is required since commission is within 5% of inward remittance
 - B. Approval is required for the portion of commission exceeding USD 25,000
 - C. Approval is required for the entire commission amount
 - D. Such commission payments are not permitted under FEMA
-

Answer B

Explanation (Exam-Pointed)

5% = USD 30,000 but capped at USD 25,000 Excess requires approval.

Exam Trap

Students apply percentage limit but ignore absolute cap.

Question 5 — Distribution of Assets on Winding Up

Upon winding up of a company, after settlement of all external liabilities, surplus assets remained available for distribution.

To whom shall such surplus assets be distributed?

Options

- A. Only to creditors of the company
 - B. Only to contributories of the company
 - C. First to creditors and thereafter surplus to contributories
 - D. Only to those contributories who initiated winding-up proceedings
-

Answer C

Explanation (Exam-Pointed)

Creditors are paid first. Remaining surplus distributed among contributories.

Exam Trap

Students ignore contributory entitlement.

Question 6 — Consequence of Non-Filing of DIR-3 KYC

A director failed to file DIR-3 KYC for two consecutive financial years.

What is the consequence on his Director Identification Number (DIN)?

Options

- A. The DIN stands permanently cancelled by the Registrar of Companies
- B. The DIN becomes deactivated due to non-filing of KYC
- C. The DIN continues to remain valid subject to payment of penalty

D. The director is required to apply afresh for allotment of DIN

Answer B

Explanation (Exam-Pointed)

Failure to file DIR-3 KYC results in DIN deactivation.

Exam Trap

Confusing cancellation with deactivation.

Question 7 — Appointment of Multiple Directors Through Single Resolution

At a general meeting, three directors were appointed through a single composite resolution without passing separate resolutions for each appointment.

Whether such appointment is valid?

Options

- A. Valid, since shareholders collectively approved the appointments
 - B. Invalid, since each director must be appointed through a separate resolution unless unanimously agreed otherwise
 - C. Valid, provided the Board subsequently ratifies the appointments
 - D. Valid, since appointment of directors is an ordinary business item
-

Answer B

Explanation (Exam-Pointed)

Each director must be appointed individually unless a unanimous resolution permits otherwise.

Exam Trap

Students treat procedural irregularity as curable.

Question 8 — Effective Date of Director's Resignation

A director submitted his resignation via email addressed to the Chief Financial Officer on 01 March 2024. The CFO failed to place the resignation before the Board and ROC filing was delayed.

From which date does the resignation take effect?

Options

- A. From the date the Board formally accepts the resignation
- B. From the date the resignation is filed with the Registrar of Companies
- C. From the date the resignation notice is received by the company
- D. From the date shareholders note the resignation in general meeting

Answer C

Explanation (Exam-Pointed)

Resignation becomes effective from the date notice is received by the company or date specified, whichever later.

Exam Trap

Students assume ROC filing determines effectiveness.

Question 9 — Action After Inspection by Central Government

After inspection of books of accounts, the Central Government formed an opinion that deeper investigation was warranted.

What action may the Central Government take?

Options

- A. It may appoint an Inspector under Section 208 only
- B. It may refer the matter to the Serious Fraud Investigation Office only

C. It may appoint an Inspector or assign investigation to the Serious Fraud Investigation Office

D. No further action may be taken once inspection is completed

Answer C

Explanation (Exam-Pointed)

CG may escalate investigation either through Inspectors or SFIO.

Exam Trap

Students treat inspection as final regulatory stage.

Question 10 — Validity of Independent Director Appointment Without Databank Registration

A woman director possessing an MBA in Finance was appointed as an Independent Director in a listed company. However, her name was not registered in the Independent Directors' Databank at the time of appointment.

Whether the appointment is valid?

Options

A. Valid, since educational qualification satisfies independence criteria

B. Valid, provided databank registration is completed later

C. Invalid, since databank registration is mandatory for Independent Directors

D. Valid, since women directors are exempt from databank requirements

Answer C

Explanation (Exam-Pointed)

Databank registration is mandatory prior to or at the time of appointment.

Exam Trap

Students substitute qualification for databank compliance.