



OFF MARKET TRANSFER OF SHARES OF PRIVATE COMPANIES HELD IN DEMAT REQUIRES COMPANY'S SPECIFIC APPROVAL

Introduction

The National Securities Depository Limited (NSDL) on June 3, 2025, issued Circular No. NSDL/POLICY/2025/0071, introducing a new compliance requirement for share transfers involving Private Limited Companies.

This development marks a significant step towards reinforcing one of the basic characteristics of a private company which is restriction against transfer of shares. It helps in governance by ensuring transfer of shares strictly adhere to the restrictions set out under the Articles of Association of the issuing company.

A Private company (other than small company) in terms of Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014, has to mandatorily issue securities/ approve transfer of shares only in dematerialised form. However, the mandatory application of this rule is now exempt until June 30, 2025.

Applicability

It is important to note that this circular applies only to a private company and not to a public limited company.

A Private Company, by definition, inter alia, has to restrict transfer of shares by providing for such measures vide its Articles of Association.

Previous Practice: Gaps in Share Transfer Oversight

Previously, shareholders of private limited companies transferring shares needed only to submit a Delivery Instruction Slip (DIS) to their Depository Participant (DP). The DP, in turn, would execute the transfer based on the instruction.

Although such transfers were subject to restrictions like those in the Articles of Association, Shareholders' Agreements, or other contractual arrangements, DPs had no obligation or mechanism to verify compliance with these restrictions. Consequently, many companies received information about share transfers only after the transaction had already been completed, creating breach of provisions of Articles of Association etc. and in some cases undesirable changes in ownership too.

Significant Changes by way of this circular

Vide the said circular NSDL addresses this loophole by making it mandatory for DPs to obtain prior written confirmation from the private company concerned before giving effect to any transfer of its shares.

The DPs must ensure

- a. A duly signed Delivery Instruction Slip (DIS) is submitted by the demat account holder(s).



- b. A consent/confirmation letter as per the format prescribed in the said circular is obtained from the respective Private Limited Company approving the transfer.

What Must the Company Provide?

Private companies must issue a confirmation letter (on its letterhead as per the format prescribed and annexed to the said Circular), signed by an authorised official such as the Company Secretary, Managing Director, or another authorised signatory stating that:

- The company has approved the transfer in accordance with the its Articles of Association.
- The company has to process the following:
 - Transferor and Transferee information
 - Compliance with the company's Articles of Association and Section 2(68) of the Companies Act
 - PAN details
 - ISIN and quantity of shares being transferred
 - Reason for transfer

NSDL Circular Link:

https://nsdl.co.in/downloadables/pdf/17_NSDL_Circular_dated_03_June_2025.pdf
