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Regulation 31A

The 10% Condition, and the
Declassifications it prohibits

The Aggregation Rule | Ten Foreclosed Cases | What may work

The Test	Foreclosed	What Works
How the 10% threshold is computed	Declassifications that cannot be achieved	Where the perimeter may still permit declassification

Swipe →

01

THE AGGREGATION RULE

The Condition Tests Arithmetic, Not Conduct

Aggregation by Status, Not by Conduct

THE TEST

Regulation 31A(3)(b)(i) requires the applicant and persons related to the applicant not to hold more than 10% of total voting rights together. The related set is fixed by sub-clauses (ii) to (iv) of ICDR Regulation 2(1)(pp), which turn on relationship and on 20% holding in other entities, not on intent or involvement.

Absence of Control Is Not a Defence

DISJUNCTIVE CONDITIONS

The conditions in clause (b) are disjunctive and each must be satisfied independently. Once the threshold is crossed, a submission that the applicant exercises no control over the affairs of the company does not go to eligibility at all.

The Rebuttable Test Was Replaced in 2018

THE SUBSTITUTION

Regulation 31A(7)(d) also allowed SEBI to relax any condition on being satisfied about non-exercise of control. This discretion was withdrawn thereafter.

Tagging Precedes Any Question of Exit

REGULATION 31A(6)

On transmission, succession, inheritance or gift, the recipient is classified as a promoter or promoter group member immediately on the event. Eligibility to exit is tested only afterwards, and the tag remains in place until every condition in clause (b) is satisfied.

The Applicant Is Judged by Holdings They Do Not Control

Every other requirement in clause (b) is within the applicant's own power to satisfy

02

WITHIN THE FAMILY

Declassifications the Threshold Blocks Inside the Family

The Married Daughter

STATUS SURVIVES SEPARATION

A daughter with her own career and no role in the business is gifted shares or inherits them. Marriage and separate lives do not displace immediate relative status, and the father's holding carries her above 10%.

The Divorced Spouse

SHAREHOLDER VOTE ONLY

The divorce exemption relieves only against the shareholder resolution. The threshold itself survives the marriage, so where common children hold above it, the former spouse remains inside the promoter group.

The Legatee Under a Will

TAGGED ON A PASSIVE EVENT

A bequest is a passive event, yet the legatee is tagged immediately on succession. Where the testator's surviving family holds above the threshold, the tag is acquired without being sought and without a route out.

The Estranged Sibling

NO ESTRANGEMENT TEST

A brother or sister who has had no dealing with the business for decades remains an immediate relative. The controlling sibling's holding is counted against an applicant who has no connection with it.

The In-Law by Marriage

TAGGED BY MARRIAGE

A son-in-law or daughter-in-law enters the promoter group on marriage, often holding only a token gift. Their own related set includes their spouse, so they cannot leave while the spouse stays above the threshold.

The Bar Arises From Holdings the Applicant Does Not Own

Relationship is fixed by status, and the regulation provides no test of distance or estrangement

03

BEYOND THE FAMILY

Declassifications It Blocks Elsewhere, and Where It May Work

The Outgoing Promoter After a Sale

CONTROL GONE, TAG REMAINS

Control has passed to the acquirer, the seller has left the board and every special right has been terminated. A retained stake above 10% keeps the promoter tag, and the liability with it, on a shareholder who decides nothing.

The Founder Who Has Handed Over

DILUTION IS NOT ENOUGH

Successive funding rounds have diluted the founder, a professional executive runs the company and the board is independent. The founder with immediate relatives stays above 10% and carries every promoter obligation.

The Family Holding Company

THE 20% ENTITY LINK

The applicant may hold very little directly, but a body corporate in which the applicant or an immediate relative holds 20% or more is attributed in full. The entity limb defeats applications the relative limb would have allowed.

The Member Who Inherits After Exit

AUTOMATIC REVERSION

Compliance with the threshold must be maintained at all times after declassification. A later succession that carries the aggregate back above 10% restores the promoter tag automatically, without any application or order.

The Genuine Family Separation

WHERE IT MAY STILL WORK

Where the separation is real, is recorded in a disclosed settlement, and the applicant’s own related holding is brought below 10%, exchanges have permitted the exit.

Arithmetic Decides, Not the Quality of the Separation

Where the applicant’s own related holding falls below 10%, declassification is available

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The Takeaway

Regulation 31A measures the applicant's arithmetic rather than the applicant's conduct. Where the aggregate holding of the applicant and persons related to the applicant exceeds 10%, separation, distance and non-involvement do not open the door.

The Test	Regulation 31A(3)(b)(i) aggregates the applicant with immediate relatives and 20% linked entities, fixed by status and not by intent or involvement
The Cost	Married daughters, former spouses, legatees, estranged siblings, outgoing sellers and diluted founders hold a promoter tag they did not seek and cannot remove
What May Work	The set is drawn with respect to the applicant, not across the promoter group. Where a genuine separation brings the applicant's own related holding below 10%, declassification has been permitted
The Watch-out	**Regulatory Watch-Out:** The divorce exemption relieves only against the shareholder resolution and does not disapply the threshold **Practical Watch-Out:** Declassification is not final – a later succession restores the tag