



SEBI Board Meeting update Dated June 23rd 2015

In a major boost for start-ups, capital markets regulator SEBI on Tuesday, June 23, 2015 relaxed its regulations for them to list and raise funds through a dedicated platform on domestic stock exchanges, rather than going overseas. It also cleared a new set of norms for re-classification of promoters, to bolster corporate governance at listed companies. It liberalized norms for fast-track issuance for FPOs and rights issues, to encourage greater retail participation. Through this inform analyzing the key changes brought in such regulations are discussed herein below on the basis of SEBI Press release dated June 23, 2015. The key highlights of the decision taken are:

Streamlining the Process of Public Issues - Obviating the need to issue cheques

- SEBI halved the listing time to Six days i.e. T+6 from T+12 (current Listing time)
- The shorter time period, which would come into effect from January 1, 2016, would also help reduce the costs associated with the public offering
- ASBA (Application Supported by Blocked Amount), which refers to an application mechanism for subscribing to IPO with the bid amount blocked in a bank account rather than that being debited, will be applicable to all kinds of investor categories and all IPOs.

Simplified framework for capital raising by technological start-ups and other companies.

- Stock exchanges would have a separate institutional trading platform for listing of start-ups from the new age sectors, including e-commerce firms, while the minimum investment requirement would be Rs. 10 lakh.
- At least 25 per cent of the pre-issue capital would need to be with institutional investors for technology start-ups, while this requirement would be 50 per cent for companies from other areas.
- The lock-in period of the entire pre-issue capital would be only for six months.
- Institutional investors along with family trusts, systematically important NBFCs (Non-Banking Finance Companies) and intermediaries registered with SEBI — all having net worth of more than Rs. 500 crore — would be allowed to access the Institutional Trading Platform (ITP). Non institutional investors, excluding retail individual investors, can also tap this platform.
- In case of public offer, allotment to institutional investors may be on a discretionary basis whereas to non-institutional investors it shall be on proportionate basis.
- Allocation between the said two categories shall be in the ratio of 75 per cent and 25 per cent, respectively,” Sebi said in a release.
- Under discretionary allotment, an institutional investor can be given only up to ten per cent of the



total issue size.

- All shares allotted on discretionary basis shall be locked in line with the requirements for lock-in by anchor investors, 30 days at present
- For share sale of start-ups, the number of allottees in case of a public offer should be at least 200.
- The company would also have the option to move from the ITP to the main board after three years subject to compliance with eligibility requirements of the stock exchanges.
- To rationalise the disclosure requirements for all issuers, irrespective of plans to get listed on the main board or ITP, Sebi said disclosures in the offer document with “respect to group companies, litigations and creditors shall be in accordance with policy on materiality as defined by the issuer”.
- However, all relevant disclosures should be available on the issuer’s website while product advertisements would not be required to give details of public or rights issue.

Fast Track Issuances - Follow on Public Offerings and Rights Issues

- To allow a larger number of companies to raise funds through a 'fast-track' process.
- A company with public shareholding worth Rs 1,000 crore can raise funds through FPOs under fast-track mode, down from Rs 3,000 crore requirements earlier.
- For rights issues, the fast-track route can be availed by companies with public shareholding worth as low as Rs 250 crore.
- In case of rights issue, promoters shall not renounce their rights, except to the extent of renunciations within the promoter group.
- Annualized delivery based trading turnover requirement of 10% of the total paid up capital.
- No conflict of interest between the lead manager and the issuer or its group or associate company.
- Shares of the company should not have been suspended from trading as a disciplinary measure in past 3 years.
- Issuer, promoter group and directors of the issuer should not have settled any alleged violation of securities laws through the consent mechanism with the Board in last 3 years.

Offer for Sale (OFS) of Shares through stock exchange mechanism

- To ensure increased retail participation in the OFS process, OFS notice shall be continued as per present practice i.e. latest by T-2 days. However, T-2 day shall be reckoned from banking day instead of trading day.
- To simplify the bidding process for retail investors, it would be mandatory for the seller in the OFS to provide the option to retail investors to place their bids at cut off price (default option) in addition to placing price bids.

Re-classification of Promoters as Public

New set of norms for re-classification of promoters, whereby:

- An outgoing promoter would have to forego control and all special rights and dilute stake to 10 per cent to become a public investor.
- An outgoing promoter can continue to hold CEO or other such senior positions for up to three years, if approved by the board as well as shareholders of the company.
- The outgoing promoters cannot have more than 10 per cent shareholding. Besides, they cannot be in control of the company directly or indirectly, or special rights.
- Such a person can remain in the position of KMP at the company only for up to three years.
- Existing promoters may be re-classified as public in case the company becomes professionally managed and does not have any identifiable promoter. SEBI said a company will be considered as professionally managed if no person or group along with persons acting in concert (PACs) taken together holds more than 1 per cent shares of the company (including any convertibles/



outstanding warrants/ADR/GDR holding).

- If any public shareholder seeks to re-classify itself as promoter, it shall be required to make an open offer to the shareholders and would not be eligible for exemption from the said obligation.
- The event of re-classification may be disclosed as a material event in accordance with the listing agreement/regulations.

Recommendations of the Depository System Review Committee

The Depositories have been advised to implement the following:

- Develop a mechanism to maintain complete reconciled record of total issued and listed capital, including both physical and dematerialized shares.
- Risk Management Policy at the Depositories and Information Technology (IT) infrastructure of the Depository Participants.
- Popularization of e-KYC among Depository Participants.
- Put in place systems to facilitate generation and dispatch of single Consolidated Account Statements (CAS) for investors having investments in securities and Mutual Funds, which has been implemented with effect from March 01, 2015.

Interim Use of Funds by the Issuers

- In order to prevent misuse of funds during the interim period pending utilization by the issuer, for funds raised through public / rights issue in accordance with SEBI (ICDR) Regulations, 2009, the SEBI decided that net Issue proceeds pending utilization (for the stated objects) shall be deposited only in the Scheduled Commercial Banks included in the Second Schedule of Reserve Bank of India Act, 1934.
- In case of public / rights issue of Indian Depository Receipts, the issuer shall keep the funds in a bank having a credit rating of 'A' or above by an international credit rating agency.

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