

SEBI (LODR), REGULATIONS 2015

(Notified - 2nd sept, 2015 by SEBI)

Objective: To consolidate all norms relating to listing of different segment of Capital MarketApplicability: [Amendment]To the **Listed Entity** who has listed any of the following **Designated securities** on RSE(s):specified securities listed on
main board or **SME Exchange** or
Innovators Growth Platform;non-convertible
securitiesIndian Depository
Receipts;Securitized debt
instruments**security receipts**units issued by mutual
funds;any other securities as may be specified by
the BoardProvisions of these regulations which become applicable to listed entities on the **basis of market capitalization/outstanding listed debt securities** criteria **shall continue to apply** to such entities **even if they fall below such thresholds**.Regulation 17: Board of DirectorsComposition:

1. **Optimum** composition of Executive and Non-Executive Directors (NED)
2. NED to be **not less than 50%** of BOD (i.e. if total directors = 6, NED cannot be less than 3)
3. At least 1 Women Director
4. Number of Independent directors (ID)

If chairperson of BOD
is a NED - At least
1/3rd to be ID

If Chairperson is

- **Not** a regular NED **or**
- Is a regular NED but is a Promoter of the entity or
***Related to promoter** or person occupying management position
Then at least **$\frac{1}{2}$ of BoD** to be ID

*Where **promoter** is a company, "Related to promoter" would mean directors, nominees and employees. However, where promoter is a listed entity, ID not to be considered as related.

5. Top **2,000 listed entities** shall comprise of **not < 6** directors
6. Top **1,000 listed entities** to have **at least 1 independent woman director**

Top listed entities to be identified basis market capitalization as at end of last financial year

Age

- All directors → Minimum 21 years
- NED → **Maximum 75** years (If > 75 years, **Special Resolution** and Explanatory statement)

Board Meeting:

- At least **4 times** in a year
- Maximum gap of **120 days**

- **Quorum** (for top 2000 listed entities) - **1/3rd of total strength** or **3 directors** whichever is **higher including at least one ID**
- Participation by AV means to be considered for quorum

Review of Compliance Report:

Board shall **periodically review** the compliance report pertaining to all laws applicable to listed entity, **prepared by the company and** steps taken to rectify instances of non-compliance

Evaluation of ID:

The evaluation of ID shall be done by the entire BOD which shall **include:**

- **performance** of the directors; **and**
- fulfillment of the **independence criteria** as per this Regulation

Provided that in the above evaluation, the **dirs. who are subject to evaluation shall not participate.**

Regulation 17A: Max. No. of Directorship - Applicable only to directorship of listed cos.:

Max no. of directorships, including **alternate directorships** that can be held by them **at any time:**

1. **Director** in listed entities - **Max 7** (w.e.f. 1st April, 2020, earlier it was 8)
2. **ID** in listed entities - **Max 7**
3. If **MD/WTID** in any Listed entity, then **ID** in **max 3** listed entities

In this section, listed entity shall only mean those entity whose **equity** is listed on RSE

Regulation 18 Audit Committee : Co. will form a qualified and independent Audit Committee

Regulation 24: Corporate Governance w.r.t, Subsidiary of Listed company

1. At least **1 ID** on BOD of listed entity shall be **director** on board of unlisted ***Material Subsidiary**, whether incorporated in India or not

***Material subsidiary** means a subsidiary whose **income/net worth is > 20%** of consolidated income/net worth of company in immediately preceding accounting year

2. The **Audit Committee** of listed entity shall **review financial statement**, in particular, investment made by subsidiary company
3. **Minutes** of Board meeting of unlisted ~~material~~ subsidiary- placed at BOD meeting of listed entity
4. Management of unlisted subsidiary shall bring to the notice of board of listed entity statement of all ***significant transactions and arrangement** entered into by Unlisted ~~material~~ subsidiary

***Explanation- significant transactions/arrangement-** any individual transaction/arrangement **> 10%** of total Rev./Exp./Assets/Liab. of unlisted sub/sy for immediately preceding accounting year.

5. Listed entity not to **dispose** of shares in **material** subsidiary company resulting in reduction of Shareholding to **<= 50%** or **cease the exercise of control** over subsidiary **without passing special resolution** in GM (except scheme approved by court/tribunal or under a resolution plan u/s 31 of IBC, 2016 **and** Event disclosed to RSE within 1 day of such plan being approved)

6. Selling/disposing/leasing **assets amounting > 20%** of total asset of **material** subpy shall require **prior approval** of shareholders by a **SR** (except scheme approved by court/tribunal or under a resolution plan u/s 31 of IBC & Event disclosed to RSE within 1 day of such plan being approved)
7. Where a listed entity has a **listed subsidiary**, which is itself a holding company, the prov. of this regulation shall apply to the listed subsidiary in so far as its subsidiaries are concerned.

SUMMARY OF SUMMARY!

Material Subsidiary:

1. One ID to be director
2. Red. of shareholding $\leq 50\%$ or lose control (SR)
3. Dispose asset $> 20\%$ of total (SR)

Unlisted Subsidiary (either material or not):

1. Board to review Minutes
2. Significant transaction and arrangement

Regulation 26: Restriction on number of Memberships (of various committees)

1. Not be mem. in $> *10$ comm. or act as **CP** of $> *5$ comm. across all **listed entities** in which he is a dir.

The number of $*10/5$ above shall be calculated as follows:

- a. **Include** - **Public limited companies**, whether listed or not
 - b. **Exclude** - **All other companies** including Private Limited companies, Foreign companies, high value debt listed entities and Section 8 companies
 - c. **Include** chairpersonship & membership of **AC & SRC alone**. Exclude other committees.
2. Director to **inform listed entity** about the committee positions he or she occupies in other listed entities and notify changes as and when they take place.

Types of committees under LODR

1. Audit committee [Regulation 18]:

Listed entity should have **qualified and independent** audit committee

- Minimum 3 directors as members
- At least 2/3 to be **independent** (In case of o/s SR equity shares, all directors = ID)
- All - Financially literate. **At least 1** - Accounting or Financial management expertise
- **Chairperson to be independent director** and present in AGM to answer questions
- CS of company to be secretary to Audit Committee
- Audit Committee may, at its own discretion, invite:

Head of **finance**/finance director

Head of **Internal** audit

Representative of **statutory** auditor

To be present in meeting of AC

Meeting of Audit Committee

- At least **4 times** in a year
- Maximum gap **120 days**

Quorum - $1/3$ rd of members or **2 members** whichever is **higher** (**At least 2 ID mandatory**)

Power of Audit Committee:

Investigate any activity within its term of reference

Seek information from employee

Obtain outside legal/professional advice

Secure attendance of outsiders with relevant expertise

COMPARISON OF AUDIT COMMITTEE AS PER LODR VS SEC 177 OF COS ACT, 2013

Particulars	As per LODR	As per Sec 177 of Co. Act, 2013
Applicable to	All listed companies	All Listed Companies Unlisted Public Co. with: ➤ Paid up share capital ≥ Rs. 10 crs or ➤ Outstanding loans, debentures, deposits > Rs. 50 crs or ➤ Turnover ≥ Rs. 100 crs *Limit once applicable- to Apply for 3 consecutive years
Min. no. of dirs	3	3
Minimum ID	2/3rd	Majority
Financial Literacy	All (At least 1 expert)	Majority including chairperson
Chairperson	ID + Present at AGM	Ability to read & understand FS
Secretary	CS of co. to be the secretary	No such provisions
Meetings	At least 4 times in a year with a maximum gap of 120 days	
Quorum	2 or 1/3rd, whichever is higher with minimum 2 ID to be present	
Additional requirements	The committee may invite finance executives to the meeting.	

2. Nomination and Remuneration Committee (NRC) [Regulation 19]:

Particulars	SEBI LODR	Companies Act, 2013 (Sec 178)
Constituted by:	Board of Directors	Board of Directors
No. of dirs.	At least 3	3 or more NEDs
ID	At least 2/3rd	Not less than 1/2
Chairperson	Must be an ID	No such provision
Quorum	1/3rd of member or 2 member whichever is higher (At least 1 ID mandatory)	
Meeting	At least 1 in a year	
Common Points:	1. CP to attend AGM to answer SH queries (not necessarily himself) 2. CP of Listed entity (whether ED/NED) may be appointed as member of NRC but shall not chair the NRC	

3. Stakeholder Relationship committee [Regulation 20]

Constituted to look into various aspects of interest of SH, Deb. Holder and other secured holders.

- At least 3 directors
- At least 1 ID
- Chairperson to be **NED (not ID)** and to be **present** at AGM
- BOD to decide **other members** of SRC
- **Meets at least 1 in a year**

4. Risk management committee (RMC) [Amendment]

[Applicable to top 1,000 listed entities & a high value debt listed entity]

- Constituted by BOD.
- Minimum 3 members + Majority to be member of BOD
- **At least 1 ID.** In case of outstanding SR Equity shares $\geq 2/3$ rd IDs
- CP - To be a director and Senior executives of listed entity may be members
- Meet **at least twice** in a year
- **Quorum** - $1/3$ rd of total or 2 members, whichever is **higher** (at least 1 director to attend)
- Maximum **gap** between two consecutive meeting - 180 days
- BOD to define roles and responsibility of RMC
- RMC shall have powers to seek info. from any employee, obtain outside legal or other professional advice & secure attendance of outsiders with relevant expertise, if it considers necessary.

SUMMARY OF ALL COMMITTEES AS PER SEBI LODR:

	Audit Committee	NRC	SRC	RMC
Number of members	Minimum 3	Atleast 3, All NED	Minimum 3 directors	Min 3 members . (Majority - Dir.)
No. of ID	Atleast 2/3rd *	Atleast 2/3rd	Atleast 1	Atleast 1*
Chairperson	ID	ID	NED	Director
Meeting	Atleast 4	Atleast 1 in a year	Atleast 1 in a year	Atleast 2 in a year
	Max gap 120 days	Not mentioned in Regulation	Not mentioned in Regulation	Max gap 180 days
Quorum	Higher of 1/3rd or 2 members	Higher of 1/3rd or 2 members	Not mentioned in Regulation	Higher of 1/3rd or 2 members
	Atleast 2 ID mandatory	Atleast 1 ID		Atleast 1 Dir.
Additional Points	All Members - Financial Literate At least 1 member - Financial Mgt. expertise	Chairperson of co. may be appointed as member but not chair NRC	This committee looks into complaints of the investors	Senior Executives (Non-director) may be a member

* In case of o/s SR eq. sh., AC shall have all directors as ID and RMC shall have minimum 2/3rd IDs

QUARTERLY COMPLIANCES

Within ___ days from end of each quarter	Statement / Reports to be filed with RSE by Listed Entity
21 days	Report on Corporate Governance in format specified by BOD
21 days	Statement showing number of investor complaints : 1. Pending at the beginning of the quarter 2. Received during the quarter 3. Disposed of during the quarter 4. Remaining unresolved during the quarter
21 days	Statement showing holding of securities and shareholding pattern separately for each class of securities. (Also, to be disclosed 1 day prior to listing and within 10 days of any capital restructuring scheme of listed entity resulting in change >2% of total PUSC)
45 days (other than last quarter)	Quarterly and Year to Date standalone financial statement
For such period till which the issues proceeds are fully utilized or purpose achieved	Quarterly statement for public issue, right issues, preferential issues, etc. a. indicating deviations in the use of proceeds from the objects stated in offer documents or Explanatory St. to the notice of GM b. indicating variations (category wise such as Capex, Sales and Marketing, working capital, etc.) between projected utilization of fund made in Offer Document vs actual utilization of fund

PRIOR INTIMATIONS TO RSEs:

Intimation to RSE at least ___ days before meeting (excl. date of intimation & date of meeting)	Where following proposal is due to be covered in BOD meeting:
2 working days	<ul style="list-style-type: none"> ➤ Proposal for buyback of securities ➤ Proposal for voluntary delisting ➤ Fund raising by way of Further Public Offer, ADR, GDR, Convertible Bonds, Debt issue, preferential issues, etc. ➤ Declaration / Recommendation to declare dividend ➤ Issuance of convertible securities incl. convertible deb. ➤ Declaration of bonus securities
5 days	Financial Results viz. quarterly, half yearly, or annual
7 working days prior to record date	<ul style="list-style-type: none"> ➤ Notice of Record date and the purpose of record date ➤ Record date could be for - Dividend, Rights or bonus issue, conversion of debenture, etc., corporate actions such as merger, demerger, or other purpose as specified by stock exchange ➤ Listed entity to declare dividend and/or cash bonus at least 5 working days (excl. date of intimation & record date) before record date
11 working days (don't excl. day of intimation and BOD meeting here)	<ul style="list-style-type: none"> ➤ Alteration in form of securities or rights of holder thereof ➤ Alteration in date on which the interest or redeemable amount of debenture will be payable

ANNUAL COMPLIANCES:

Time Limit	Compliance with Stock Exchange
Within 60 days from end of FY	Entity to submitted AUDITED standalone financial results for the FY along with audit report and Statement on Impact of Audit Qualification (applicable for audit report with modified opinion)
Not later than the day of commencement of dispatch to SH	Submit to stock exchange + Publish on website - A copy of annual report sent to shareholders along with notice for AGM
Within 48 hours of AGM	In the event of any changes to Annual Report, revised copy along with detailed explanation for such changes

Role of Compliance Officer

- (1) A listed entity shall appoint a qualified CS as the compliance officer.
- (2) The compliance officer of the listed entity shall be responsible for-
 - a. ensuring conformity with the regulatory prov. applicable to listed entity in letter and spirit.
 - b. co-ordination with & reporting to Board,
 - c. ensuring that correct procedures have been followed that would result in correctness of information, filed by the listed entity under these regulations.
 - d. monitoring email address of grievance redressal division

Disclosure Requirements

Disclosure about relationship between directors inter se shall be made in the:

Annual Report

Notice of appointment of director

Prospectus

Letter of offer for issuance

Related filings made to RSE where company is listed

Note: Where there is any change in the content of website of a listed entity, it shall update the same in its website within 2 days (for e.g., - address of the entity)

The following disclosures shall be made in the section on the corporate governance of the annual report:

Stakeholders' relationship committee

- (a) name of the non-executive director heading the committee;
- (b) name and designation of the compliance officer;
- (c) number of shareholders' complaints received during the financial year;
- (d) number of complaints not solved to the satisfaction of shareholders;
- (e) number of pending complaints.

Risk management committee:

- (a) brief description of terms of reference;
- (b) composition, name of members and chairperson;
- (c) meetings and attendance during the year;

SEBI (ICDR) REGULATIONS, 2018



Acronyms used:

CCS	Compulsorily Convertible Securities	DDC	Due Diligence Certificate
FPO	Further Public Offer	IDR	Indian Depository Receipts
IGP	Innovators' Growth Platform	IPO	Initial Public Offer
LM	Lead Manager(s)	PFI	Public Financial Institution
RHP	Red Herring Prospectus	SA	Stabilising Agent
SE	Stock Exchange	TC	Target Company
UPSI	Unsentitive Price Sensitive Information	VR	Voting Rights
FR	Free Reserves	SPA	Securities Premium Account

Objective

- Regulate and development of Indian Capital Market
- Balance the interests of investors & the issuer companies.

Relevant Definitions (Regulation 2)

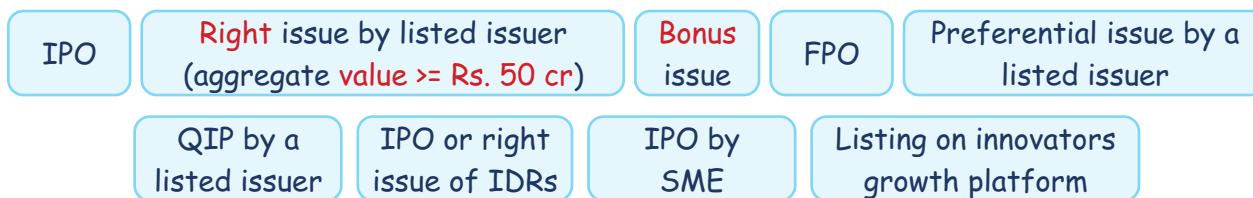
1. Book Building - Process to **elicit (evoke) demand and to assess the price** and for determination of quantum or value or coupon of specified securities or IDR.
2. Convertible debt instrument - An instrument which creates/acknowledges **indebtedness** and is **convertible to equity share** at later date, with or without the option of holder, whether or not constituting charge on the assets of the issuer.
3. Green shoe option - Option of **allotting equity in excess of equity shares offered in public issue**, as a **post listing price stabilising mechanism** within **30 days** from listing to provide price support in case the price goes below the issue price.
4. Offer document means:
 - Public Issue - Red herring prospectus, prospectus or shelf prospectus
 - Rights Issue - Letter of offer

Classifications of Issues:

Public Issue:	(i) <u>IPO</u> - Offer of securities by an unlisted issuer to public for subscription. Includes Offer for Sale (OFS) by existing SHs to public. To qualify as IPO - Issue to be made to public, not to existing holders . (ii) <u>FPO</u> - Subsequent offer by listed issuer to public for subscription & incl. OFS.
Rights Issue	Offer of specified securities + to the existing S/H of the issuers on a record date
Composite Issue	Issue of shares or convertible securities by listed issuer where allotment is both by public issue cum rights issue simultaneously .
Bonus Issue	Issue to existing SHs, w/o any consideration , out of FR or SPA.
Private Placement	Issue of shares or convertible securities to a selected group of persons, not exceeding 200 persons in aggregate in a FY .

Applicability of Regulations (Regulation 3):

These regulations shall apply to following:



INITIAL PUBLIC OFFER

Reference date (Regulation 4)

An issuer making an IPO shall satisfy the condition of this Chapter as on:

- (i) Date of filing of draft offer document with Board (SEBI), and
- (ii) Also, on date of filing of offer document with ROC.

Entities not eligible to make an initial public offer (Regulation 5)

(1) An issuer shall not be eligible to make IPO if:

- (a) issuer, its promotor/dir (P/D) or selling SHs are debarred from accessing cap mkt by SEBI
- (b) any P/D of issuer is a P/D of any other co. which is debarred from accessing capital market.
- (c) is issuer or its P/D is a wilful defaulter or a fraudulent borrower.
- (d) any of its P/D is a fugitive economic offender.

Explanation: (a) & (b) shall not apply to persons/entities who were debarred by Board and period of debarment is completed as on date of filing draft offer document with Board.

(2) An issuer is not eligible if there is an outstanding convertible securities or o/s right issue.

Provided that this shall not apply to:

- (a) Outstanding ESOPs
- (b) Fully paid-up o/s convertible securities convertible on or before date of filing prospectus.

Eligibility requirements for an initial public offer (Regulation 6)

(1) An issuer shall be eligible to make an initial public offer only if, it has

- (a) net tangible assets of at least 3 crore rupees, of which not more than 50% are held in monetary assets. However, if more than 50% are held in monetary assets, then issuer has either utilised or made firm commitments to utilise such excess monetary assets in its business or project. This shall not apply to the IPO is made entirely through an offer for sale.
- (b) average operating profit \geq 15 crore rupees.
- (c) net worth \geq 1 crore rupees

The above shall be calculated on a restated and consolidated basis, in each of the preceding 3 full years (of 12 months each)

(d) if it has changed its name within the last one year, at least 50% of the revenue, for the last 1 full year has been earned by it from the activity indicated by its new name.

(2) An issuer not satisfying above condition shall be eligible for IPO, if

c. issue made through the **book-building pROcess**



b. the issuer undertakes to allot at least 75% of the net offer to **QIBs**



a. to **refund the subscription money** if it fails to do so

(3) If issuer has issued SR equity shares to its promoter or director, then issuer is only allowed for IPO of ORDINARY equity shares on Main Board, subject to:

- (i) the issuer shall be intensive in the use of **Tech or Bio/Nano/Info Tech, Data Analytics, IP** to provide products, services or business platforms with substantial value addition;
- (ii) the **NW of the SR shareholder ≤ 1,000 crore** as determined by a Registered Valuer. While computing NW, investment in other listed cos. to be taken & not of issuer company.
- (iii) the SR shares were **issued** only to the **executive promoters/founders** in the issuer company;
- (iv) Issue of SR equity shares has been **authorised by SR** at GM of company, where notice incl.

1. Size of issue

2. Ratio of voting rights (SR to Ordinary Sh.)

3. Rights as to differential dividends

4. Sunset provisions - time frame for the validity of SR shares

5. Matters where voting right of SR & Ordinary share would be same

- (v) SR equity shares were **issued before filing of draft RHP** & held for a **period of at least 3m prior** to the filing of the RHP;
- (vi) SR to Ordinary Equity Voting Rights - **Minimum 2:1 & Maximum 10:1**
- (vii) SR Face Value = Ordinary Share Face Value
- (viii) Only **one class of SR Equity** has been issued
- (ix) SR Equity **shall be same as Ordinary Shares** in all other respect, except voting rights.

General Conditions (Regulation 7)

(1) An issuer making an **Initial Public Offer** shall ensure that:

- (a) It has made an **application to 1 or more SEs**, to seek an in-principle approval for listing and has chosen one of them as **designated SE**.
- (b) Entered into an **agreement** with a **depository** for **dematerialisation** of the security to be issued.
- (c) All its securities **held** by the **promoters** are in **Demat form** before filing of the offer document.
- (d) All its existing partly paid-up ES have either been 1) fully paid-up or 2) **have been forfeited**.
- (e) It has made **firm arrangements of finance through verifiable means towards 75% of the stated means of finance** for a specific project proposed to be funded from the issue proceeds, excluding the amount to be raised through the proposed public issue or through existing identifiable internal accruals.

(2) Amount for **general corporate purposes** shall not exceed **25%** of amount raised.

Explanation II - if the issuer **had been partnership firm/LLP**, then the track record of operating profit of the firm or LLP shall be considered only, if the erstwhile FS conform to and are revised in the format prescribed for companies under the Companies Act and,

- a. Adequate disclosures as per Schedule III are made in Financial Statements
- b. FS are duly certified by Statutory Auditor stating that -
 - i. accounts & disclosure are in accordance in Schedule III
 - ii. applicable AS have been followed
 - iii. Financial Statements present True & Fair view

Explanation III - if issuer is formed out of a division of an existing company, the track record of distributable profits of the division spun-off shall be considered, if the conditions regarding FS as in Explanation II are satisfied.

(3) The amount for:

- a) General Corporate purpose **and**,
- b) Objects where company has not identified acquisition or investment target (**max. 25%**) **shall not exceed 35%** of the amount being raised by the issuer.

Above limits **shall not** apply if, proposed acquisition/investment has been identified and suitable specific disclosure has been in draft offer & offer documents.

Additional conditions for an offer for sale

- Only fully paid-up Equity Shares held by sellers for period of **atleast 1 year** as on filing of draft offer doc. shall be offered for sale
- In case of **fully paid-up compulsorily convertible securities** including depository receipts, the holding period = **pre-conversion period + post conversion period** (combined holding period to be seen on date of draft filing)
Holding period of 1 year to be **complied** at time of filing of draft **offer document**.

When this requirement shall NOT apply (holding period of one year)?

- OFS of following (engaged in infrastructure sector)

a. Govt. Co.

a. Statutory authority/corporation

c. Any SPV set up & controlled by any 1 or more of them
- OFS of equity shares acquired pursuant to **scheme approved by HC/Tribunal/CG u/s 230 to 234** of Co. Act, 2013 in exchange of business & invested capital **existing for a period of more than 1 year** prior to approval of scheme.
- OFS under **bonus issue** of ES held **for more than 1 yr prior** to filing of draft offer doc. subject to:
 - i. bonus is out of free reserves + SP reserve at end of FY preceding the year of filing
 - ii. not by using Revaluation reserve & unrealised profits

Additional conditions for an offer for sale for issues under Regulation 6(2) (Regulation 8A)

- (a) Shares offered by SH(s) holding **more than 20%** of pre-issue shareholding **shall not exceed 50% of pre-issue shareholding.**
- (b) Shares offered by SH(s) holding **less than 20%** of pre-issue shareholding **shall not exceed 10% of pre-issue shareholding.**
- (c) SH(s) holding **more than 20%** of pre-issue holding. provision of Lock-in as per Regln. 17 shall apply. (The pre-issue holding can be individual or in-concert + post issue holding seen on fully diluted basis)

ISSUE OF CONVERTIBLE DEBT INSTRUMENTS AND WARRANTSEligibility requirements for issue of convertible debt instruments (Regulation 9)

- An issuer **shall be eligible** for IPO of Convertible Debt Instrument **w/o making a prior public issue and listing of its Equity shares.**
- Provided it is **not in default** in payment of principal & intt of debt issued to public for **more than 6m.**

Additional requirements for issue of convertible debt instruments (Regulation 10)

- (1) Issuer making an IPO shall satisfy also comply with following:
 - (a) Obtained credit rating from atleast 1 Credit Rating Agency
 - (b) Appointed atleast 1 Debenture Trustee in accordance with Cos. Act, 2013 & SEBI Act, 1992
 - (c) Shall create a debenture redemption reserve (DRR)
 - (d) If the issuer proposes to create a charge/sec. on its assets for the issue, then it shall ensure:
 - (i) Such assets are **sufficient to discharge principal amount as ALL times**
 - (ii) Assets are **free from encumbrance**
 - (iii) If security is created on assets already in favour of existing lender/security trustee or issue is to be secured by creation of charge on LEASEHOLD LAND, then, **consent of existing lender/security trustee or lessor to be obtained & submitted** to debenture trustee for creation of second or pari-passu charge before issue opening.
 - (iv) Asset cover shall be arrived after **reducing liabilities having first/prior charge**, in case of 2nd or subsequent charge.
- (2) The issuer shall **redeem** the convertible debt instruments in terms of the offer document.

Conversion of optionally convertible debt instruments into equity shares (Regulation 11)

- (1) The issuer **shall not** convert optionally convertible debt instrument,
 - (a) Without **positive consent** of holders sent to issuer
 - (b) **Non-receipt of reply** of any notice sent by issuer **shall not be construed as consent.**
- (2) Where value of convertible portion of listed Convertible debt **> Rs. 10 crores**, and issuer **has not determined** the conversion price at time of issue, the holders shall be given **an option to not convert into eq. shares.** (not reqd. if upper price limit & its justification is disclosed to investor)

- (3) If option is given to holders as per (2), & if one or more holders **decide not to convert** into equity shares at price determined at GM, then the issuer shall redeem that portion **within 1 month** from last exercise date of option, at price **not less than Face Value**.
- (4) The provision of (3) shall not apply, if such redemption is as per disclosures made in the offer doc.

Issue of convertible debt instruments for financing (Regulation 12)

- An issuer **shall not** issue convertible debt for **financing or providing loan to or for acquiring shares** of any person of promoter group/group companies
- Provided that, issuer shall be **eligible** for above if the **period of conversion is less 18 months**.

Issue of warrants (Regulation 13)

An issuer will be eligible to issue warrant in an IPO, subject to:

- Tenor shall not exceed **18 months**
- Security may have **1 or more warrants** attached to it
- Price/formula for exercise price** - disclosed in offer doc. & 25% of consideration shall be recd. upfront. (In case of formula for EP, 25% of consideration based on cap price shall be recd.)
- If the holder **does not exercise the option within 3m** from the payment of consideration, then it shall be **forfeited**.

PROMOTERS' CONTRIBUTION

Minimum promoters' contribution (Regulation 14)

- Promoter shall hold **atleast 20% of post issue capital holding**.
In case of shortfall, then following can contribute to meet shortfall (**max. 10%** of post-issue cap.),
a) AIFs b) Foreign VCs c) Scheduled Commercial Banks d) PFIs e) Insurance Cos. (IRDA regd.)
This minimum contribution **shall not apply** if the issuer does **not have identifiable promoter**.
- The minimum promoters' contribution shall be as follows
 - Promoter shall **contribute by way of Equity shares (incl. SR) or convertible securities**.
Provided that if conversion price **not** specified in offer document, then promoter shall **subscribe** to convertible securities in **public issue** (no Private placement allowed) and **undertake in writing to subscribe to ES** on conversion.
 - If there is issue of convertible securities convertible on different dates and promoter's contribution is by way of equity shares, then **price of ES shall not be less than weighted average of ESC arising on conversion**.
Note - Conversion price is known in this case.
 - Subject to (a) & (b), if there is an **IPO** of convertible sec. **w/o prior issue of equity shares**, then promoter shall contribute **20% of project cost** in form of ES, subj. to 20% of issue size. If project is implemented in stages, then contribution shall also be **proportionate** to fund raised in each stage.
- Promoter shall satisfy the requirements **one day prior to opening of issue**.

(4) Promoters contribution shall be kept in an **escrow account** with Scheduled Commercial Bank, and to be **released with issue proceeds**.

Provided that, where the promoters cont. has already been utilised, then issuer shall give **Cash Flow Statement disclosing the utilisation** of contribution.

Where minimum contribution is **>100 crores**, and IPO is of **partly paid shares**, then promoter shall contribute atleast **100 crores** before issue opening and remaining contribution may be made on **pro-rate basis** before calls are made to public.

Explanation- Promoters holding shall be seen on post & dilution basis after assuming conversion/ exercise of convertible securities and vested options

LOCK-IN AND RESTRICTIONS ON TRANSFERABILITY

Lock-in of specified securities held by the promoters (Regulation 16)

- (1) The securities held by promoter **shall not be transferable** for the following period:
 - (a) **Minimum Contribution** (Regulation 14(1)) shall be **locked in** for **18 months** from **allotment date** in IPO. Provided that, if majority of proceeds is proposed to be utilized for **Capex**, then lock-in period shall be for **3 years**.
 - (b) Promoters' holding **in excess of minimum contribution** shall be locked for **6 months** from **allotment date**. Provided that, if **majority of proceeds** is proposed to be utilized for **Capex**, then lock-in period shall be for **1 year**.
- (2) **SR Equity shares** shall be locked in till **conversion into ES having voting rights** same as ordinary shares or **for period specified in (1)**, whichever is later.

Lock-in of specified securities held by persons other than the promoters (Regulation 17)

The **pre-issue capital** held by other than promoter shall be locked in for **6 months from allotment date**.

This shall **not apply** to equity shares:

- | | | |
|---|---|--|
| (a) Allotted to employees under ESOP | (b) Held by an employee stock option trust (ESOT) or trfd. to the employees by an ESOT | (c) Held by VCF/AIF - Category I or II/Foreign VC investor (however there shall be initial lock-in of 6m from date of purchase for these investors) |
|---|---|--|

For the purpose of (c), period of holding shall include:

For Fully paid-up CCS: Period before conversion

For Bonus Shares: Period of original shares

Lock-in of specified securities lent to stabilising agent under the green shoe option (Regulation 18)

The lock in period prov. **shall not apply** to securities lent to SA under Green Shoe from **date of lending till date of return**. Though, it shall apply for **remaining period** after date they are returned.

Lock-in of Partly-paid securities (Regulation 19)

In case of **partly paid securities**, where amount called up is **less than amount called on public issue**, then lock-in shall end **after 3 yrs** from when the securities become pari-passu to securities issued to public.

Inscription or recording of non-transferability (Regulation 20)

The certificate of securities which are subject to lock-in, shall contain the words "**non-transferable**" and **specify the lock in period**. In case of demat, the lock-in shall be recorded by **depository**.

Pledge of locked-in specified securities (Regulation 21)

Specified securities (except SR Equity) **held by promoter & locked-in** may be pledged as collateral for a loan granted by Sch. Commercial bank/PFI/SI-NBFC/HFC, subject to, if:

- (a) Locked in as per Regln.16(a) - considered that **loan granted** to issuer co./it's subsidiaries + for financing **1 or more obj. of the issue** and **pledge of securities** is one of the term of loan.
- (b) Locked in as per Regln.16(b) - **pledge of securities** is one of the terms of loan

Provided that, lock in shall **continue** post invocation of pledge and transferee **shall not be eligible** to transfer till end of lock-in period.

Transferability of locked -in specified securities (Regulation 22)

Locked in securities (except SR equity) shall be **transferred**, subject to:

- (a) By Promoter - to another **promoter**/any person of **promoter group/new promoter**
- (b) By others - to any other person **holding same locked-in securities**

Provided lock-in period shall **continue** post trf. & transferee shall **not be eligible** to trf. them till then.

DISCLOSURES IN AND FILING OF OFFER DOCUMENTS

Disclosures in the draft offer document and offer document (Regulation 24)

- (1) The offer document (including Draft) shall contain **all material disclosure** -> true and adequate -> to make informed investment decision.
- (2) RHP & prospectus shall contain **disclosure specified in (a) Companies Act, 2013 (b) Part A-Sch VI**.
- (3) The LM shall exercise **due diligence** & satisfy themselves in all aspects incl. **veracity & adequacy** of disclosure.
- (4) The LM shall call the issuer, its promoter and director, and its selling S/H (in case of OFS) to **fulfil their obligations** as disclosed in offer document.
- (5) The LM shall ensure that information in offer document and restated audited FS are **not more than 6 months** old from issue opening date.

Filing of the draft offer document and offer document (Regulation 25)

- (1) Before IPO, issuer shall **file 3 copies of draft offer doc.** with Board along with fees, through LM.
- (2) The LM shall submit following **certifications** along with draft offer document to the Board:

Certificate confirming
agreement b/w issuer & LM

Due diligence certificate
(DDC) as per Form A of
Sch.V

DDC from debenture trustee
as per Form B, in case of
convertible securities

- (3) The issuer shall **file** the draft offer document **with stock exchange** where securities are proposed to be listed, and submit,
- In case of **individual promoter** - PAN, Bank A/c no. & Passport Number
 - In case of **BC promoter** - PAN, Bank A/c no., Company Registration No. & Address of its ROC.
- (4) The board may **specify changes/issue observation within 30 days** from later of date of receipt of:

Draft Offer Doc.

Satisfactory reply from LM where Board had sought clarification or additional info.

Clarification/info. from **any regulator or agency**Copy of **in-principle approval letter**, issued by SE

- (5) In case of observations/change, the issuer & LM shall **carry out the changes** & submit **an updated document**, highlighting the changes.
- (6) If change related to matter in Schedule XVI, **updated/new draft** shall be filed with **the Board**.
- (7) **Copy of offer document** to be filed with **Board & SE**, after filing it with ROC.
- (8) The offer document (including draft) shall be furnished in **soft copy** as well to Board.
- (9) The LM shall submit the following **on issuance of observation or after expiry of time in (4)** in case of no observation:

Statement certifying all **changes/observation/suggestions** have been **incorporated** in offer doc.

Due diligence certificate as per Form C of Sch.V, at time of filing offer doc.

A copy of **resolution** passed for allotting securities to promotersCertificate from Stat. Auditor - certifying required **promoter contribution** has been recd. with name, address of promoter along with amount recd.

DDC as per Form D of Schedule V

Draft offer document and offer document to be available to the public (Regulation 26)

- (1) Draft offer document shall be made public for comments for **atleast 21 days** from date of filing by hosting it on the website of Board, SE and LMs.
- (2) Issuer shall, **within 2 days** from filing of draft offer, **make public announcement** in one English, one Hindi & one regional newspaper **disclosing the fact of filing & inviting public for comments**.
- (3) LM shall submit the **details of comment** from public on draft offer along with **consequential changes** required to be, if any to the Board.
- (4) Issuer & LM shall ensure that offer doc. hosted in website **are same** as filed with Board/SE/ROC
- (5) LM and SE shall provide copies of offer doc. to public on request & may charge a reasonable sum.

PRICING

Price means (1) **price of equity share** or (2) **coupon rate/conversion price** in case on convertible security

- (1) The issue may mention in the offer doc:
- a) **Price/price band** for fixed price issue
 - b) **Floor price/ price band** for book-built issue; and determine the **final price** later before filing the prospectus with ROC & it shall contain **only 1 price/coupon rate** while filing prospectus with ROC

- (2) The cap (maximum value) of price band/coupon rate $\leq 120\%$ of floor price/coupon & minimum cap shall be atleast 105% of floor price. (Basically, cap can range b/w 105 to 120% of floor price)
- (3) The floor or final price shall not be less than face value.
- (4) If issuer opts to not make disclosure of floor price/price band in red-herring prospectus, then it shall announce the same atleast 2 working days before issue opening in newspaper mentioned above.
- (5) The announcement in (4) shall contain relevant financial ratios computed for upper and lower end of price band and statement involving section titled "basis for issue price".
- (6) The announcement in (4) and ratios in (5) shall be disclosed in the website of SE and shall be included in the pre-filled application forms.

Differential pricing (Regulation 30)

- (1) The issuer may offer securities at different prices, subject to:
 - (a) Retail individual investors/shareholders or employees entitled to reservation - at a price not lower than by more than 10% of price offered to other categories (excl. anchor investors)
 - (b) In case of book-built issue - Price offered to anchor investor shall not be less than price offered to others.
 - (c) If issuer opts for alternative method of book building, then issuer may offer to its employees at price not lower by more than 10% of floor price.
- (2) Discount, if any shall be expressed in rupee terms.

ISSUANCE CONDITIONS AND PROCEDURE

Opening of the issue (Regulation 44)

- (1) A public issue may be opened within 12 months from date of issuance of observation by Board.
- (2) An issue shall be opened atleast 3 working days after filing red-herring prospectus/prospectus.

Minimum subscription (Regulation 45)

- (1) Minimum subscription shall be atleast 90% of the offer, except for OFS.
- (2) On non-receipt of min. sub., monies shall be refunded not later than 14 days from closure of issue.

Period of subscription (Regulation 46)

- (1) An IPO shall be kept open for minimum 3 working days & maximum 10 working days.
- (2) In case of revision in price band or (3) force majeure/banking strike/similar circumstances, the issuer shall extend the bidding period for atleast 3 working days, subject to max period in (1).

Application and minimum application value (Regulation 47)

- (1) Issuer shall stipulate min. Application size in terms of number of securities within the range of minimum application value of Rs. 10,000-Rs. 15,000.
- (2) Shall invite application in multiples of minimum Application Value
- (3) Minimum price payable shall be atleast 25% of the issue price.
- (4) In case of OFS, full price shall be paid at time of application itself.

Manner of calls (Regulation 48)

- If the issuer proposes to **receive monies in calls**, then it shall ensure o/s monies are called **within 12m** from date of allotment of issue. (Not necessary, if issuer has appointed a monitoring agency)
- If applicant **fails** to pay call money **within 12m**, subscription money already recd. shall be **forfeited**.

Allotment procedure and basis of allotment (Regulation 49)

- (1) Issuer **shall not make allotment** in a public issue if the no. of prospective allottees **is less than 1,000**.
- (2) Allotment **shall not be more** than securities specified in offer document, except in case of over-subscription for the purpose of rounding-off to make allotment.
Such allotment **shall not be more than 1% of securities offered**, to make allotment of minimum lot.
- (3) The allotment shall be on **proportionate basis** within specified investor category. The no. of securities shall be rounded off to **nearest integer, subject to min. allotment = minimum application size**. (This is not applicable to retail individual investor/non-institutional investor/anchor investors)

Maximum value of securities - **2 lacs for Retail investors & 5 lacs for eligible employees**

- (4) & (4A) Allotment of securities to Retail/Non-institutional investor **shall not be less than minimum bid lot**, subject to availability of securities & remaining shares, if any to be allotted on pro-rata basis.
- (5) The authorised employees of the SE, along with LM(s) & registrars to the issue, shall ensure that the basis of allotment is **finalised in a fair and proper manner**.

Allotment, refund and payment of interest (Regulation 50)

- (1) Issuer & LM to ensure - securities are **allotted or application Monies are refunded or unblocked**- within period specified by board.
- (2) LM to ensure - allotment & credit of demat securities & refund/unblock of monies to be done **electronically**.
- (3) If securities not allotted/monies not refunded as per (1), issuer shall undertake to pay **interest at 15%** p.a and within such period disclosed in offer doc. & LM to ensure the same.

Post-issue advertisements (Regulation 51)

- (1) LM shall ensure an advertisement giving details relating to:

Subscription

Basis of allotment

Date of completion of dispatch of refund orders

No., value & % of successful allottees for all appln. Incl. ASBA

No., value & % of all appn incl. ASBA

Instructions to self-certified syndicate banks by the registrar

Date of credit of sec.

released **within 10 days** of completion of various activities in **1 English, Hindi & Regional language** with wide circulation

- (2) Details in (1) to be also placed on **website of SE**.

Release of subscription money (Regulation 53)

- (1) LM shall confirm to banker that all formalities of issue has been completed, by issuing copies of listing & trading approval and that banker is free to release money to issuer/refund in case of failure to issue.
- (2) If issuer fails to obtain listing & trading approval from SE then, it shall refund entire monies within 4 days from receipt of rejection of approval. If not paid within 4 days, issuer & every director who is OID shall be jointly & severally liable and repay the money with 15% interest p.a.
- (3) LM to ensure monies received in respect of issue are released to issuer.

Reporting of transactions of the promoters and promoter group (Regulation 54)

Transaction in securities between promoter & promoter group between date of filing draft offer doc./offer doc. & date of issue closure shall be reported to SE within 24 hours of such transaction.

Post-issue reports (Regulation 54)

LM shall submit Post Issue report in Part A of Schedule XVII along with DDC as per Form F of Schedule V within 7 days from date of issue finalisation or refund of money (in case of failure of issue)

MISCELLANEOUS

Restriction on further capital issues (Regulation 56)

- (1) Issuer shall not make FPO of securities in any manner (except by way of emp. stock option scheme) b/w date of filing draft offer doc. and date of listing of securities/refund of appln. monies
- (2) Unless full disclosure regarding the total no of securities or amount proposed to be raised from such issue, are made in draft offer/offer document.

Price stabilisation through green shoe option (Regulation 57)

- (1) Issuer may provide green shoe option for stabilising post issue price, subject to:
 - (i) Public issue is authorized by resolution passed in GM to allot excess securities, if required.
 - (ii) Issuer has appointed a SA - responsible for stabilisation process.
 - (iii) Before filing draft offer document, issuer & SA have entered into agreement, stating all T&Cs including fees charged & expenses to be incurred to discharge its responsibilities, and
 - (iv) SA & promoter/pre-issue SHs/both have entered into agreement to borrow securities, specifying max. sec. that can be borrowed for over-allotment purpose, which can max. 15% of the issue size.
 - (v) LM, in consultation with SA shall determine the amt of securities to be over-allotted, subj. to (d).
 - (vi) Draft offer/offer doc. shall contain all material disclosure of Green Shoe option (Part A Sch. VI)
 - (vii) Promoters/Pre-issue SHs (in case of IPO) or Pre-issue SHs holding more than 5% of securities/promoters (in case of FPO), may lend securities for over-allotment.
 - (viii) Securities shall be borrowed in demat form & allocation shall be made on pro-rata to applicants.
- (2) SA shall determine the relevant aspects including timing, quantity and price of securities to be bought from the market for stabilising process.

- (3) Stabilising process shall not be available for period exceeding 30 days from date of trading permission given by SE.
- (4) SA shall open a special account (distinct from issue a/c) to credit monies received for over-allotment & special a/c with depository to credit securities bought from market during stabilisation period, out of the monies credited in the special bank account.
- (5) The above securities bought in (4) shall be returned to promoters/pre-issue shareholders immediately but not later than 2 working days from end of stabilisation period.
- (6) If SA is unable to buy sec. from mkt. to the extent of over-allotment → issuer shall allot sec. at issue price in demat form = shortfall, within 5 days from end of stabilisation period

Such securities shall be returned to the promoters /pre-issue SHs by the SA in lieu of securities borrowed from them & a/c with the depository participant shall be closed thereafter.
- (7) Issuer shall make listing application of further securities allotted in (6) to all SE where securities in public issue are listed and Ch. V of these regulation are NA to such further securities allotted.
- (8) SA shall remit the monies to issuer for securities allotted as per (6).
- (9) Any monies left after remittance to issuer and deduction of expenses shall be trf. to IPEF.
- (10) SA shall submit report on daily basis during stabilisation period and final report to Board in format specified in Schedule XV.
- (11) SA shall maintain a register for 3 years from end of stabilisation period, containing:
 - (a) Name of promoter/pre-issue SHs from whom securities were borrowed incl. no. of securities
 - (b) Price, date & time of each transaction in stabilisation process
 - (c) Details of allotment made on expiry of stabilisation process

Alteration of rights of holders of specified securities (Regulation 58)

Issuer shall not alter terms of sec. which may adversely affect the intt of holders, except with consent in writing of 3/4th of holders or with sanction of SR passed at meeting of holders, of that class.

Post-listing exit opportunity for dissenting shareholders (Regulation 59)

Promoter/SHs in control of issuer, shall provide an exit offer to dissenting SHs in case of change in objects or variation in terms of contracts relating to object as mentioned in offer doc.

This exit offer shall not be applicable if there is no identifiable promoter/SHs in control of issuer.

FURTHER PUBLIC OFFER

Reference date (Regln. 101) & Entities not eligible to make FPO (Regln. 102) - Same as Regln. 4 & 5(1) respectively

Eligibility requirements for further public offer (Regulation 103)

(1) Issuer shall be eligible for FPO, if it has **not changed its name in last 1 year** immediately preceding the date of filing offer document.

In such case, issuer shall be eligible only, if **atleast 50% of the revenue** for the preceding 1 full year has been earned by it from the activity indicated by its new name.

(2) If issuer fails to satisfy the above condition, it shall make FPO only if:

a. issue made through the **book-building process**



b. the issuer undertakes to allot at least **75%** of the net offer to **QIBs**



c. to **refund the subscription money** if it fails to do so

General conditions (Regulation 104)

(1) An issuer making an **FPO** shall ensure that:

(a) It has made an **application to 1 or more stock exchanges**, to seek an in-principle approval for listing & has chosen one of them as **designated SE**.

(b) Entered into an **agreement with a depository** for **dematerialisation** of the security to be issued.

(c) All its **existing partly paid-up ES** have either been 1) **fully paid-up** or 2) **have been forfeited**.

(d) It has made firm arrangements of finance through verifiable means towards **75%** of the stated means of finance for a specific project proposed to be funded from the issue proceeds, excluding the amount to be raised through the proposed public issue or through existing identifiable internal accruals.

(2) Amount for **general corporate purposes** SHALL NOT exceed **25%** of amount raised.

(3) The amount for:

(a) General Corporate purpose and,

(b) Objects where company has not identified acquisition or investment target (subj. to max 25%) **shall not exceed 35%** of the amount being raised by the issuer.

Above limits **shall not** apply if, proposed acquisition/investment has been identified and suitable specific disclosure has been in draft offer & offer documents.

Additional conditions for an offer for sale (Regulation 105) - Same as conditions after Regln.7

ISSUE OF CONVERTIBLE DEBT INSTRUMENTS AND WARRANTS

Eligibility of issuer to make FPO of convertible debt instruments

- An issuer **shall be eligible** for FPO of Convertible Debt Instrument if its **ES are already listed**.
- Provided it is **NOT in default** in payment of principal & intt of debt issued to public for **> 6 months**.

Additional requirements for issue of convertible debt instruments (Regulation 107) - Same as Regln. 10

Roll over of non-convertible portion of partly convertible debt instruments (Regulation 108)

- (1) The non-convertible portion of partly convertible debt, the value of which exceed Rs.10 crores may be rolled over, subject to:
- 75% of holders in value, through resolution have approved the rollover through postal ballot.
 - Along with notice of resolution, the issuer has sent an auditor's certificate on Cash Flow & comments on liquidity of issuer, to the holders.
 - Issuer has undertaken to redeem the non-convertible portion of dissenting holders
 - Credit rating from atleast 1 credit agency has been obtained within period of 1 month prior to due date of redemption and has been communicated to holders before roll-over.
- (2) Creation of fresh security & execution of fresh trust deed - not mandatory, if existing deed provide for continuance of security till redemption.

Provided that debenture trustee shall decide whether fresh security and deed is required by issuer.

Regulations 109 to 111:

109- Conversion of optionally convertible debt instruments into equity share capital	Same as Regulation 11
110- Issue of convertible debt instruments for financing	Same as Regulation 12
111-Issue of warrants	Same as Regulation 13

PROMOTERS' CONTRIBUTION

Requirement of minimum promoters' contribution not applicable in certain cases (Regulation 112)

- (1) The requirement of minimum promoters' contribution shall not apply in case of:
- When issuer does not have an identifiable promoter,
 - Where ES of issuer are frequently traded on SE for period of atleast 3 years immediately preceding the reference date, and
 - Issuer has redressed atleast 95% of investor complaints till the end of quarter immediately preceding the reference date
 - Issuer has been in compliance with SEBI(LODR) for minimum 3 years immediately preceding the reference date

However, if the issuer has not complied with SEBI(LODR) w.r.t composition of BOD in any quarter in the immediately preceding 3 years from date of filing draft offer/offer document, but is compliant as at date of filing of draft offer/offer doc. and adequate disclosure about non-compliance are made in draft offer/offer document then it shall be deemed as compliance.

Provided further, where promoter proposes to subscribe securities to the extent which is greater than higher of 2 option in Regulation 113(1)(a), such excess subscription shall be at a price determined as per Regulation 164 or issue price, whichever is higher.

Minimum promoters' contribution (Regulation 113)

- (1) The promoter shall contribute to the public issue as follows:

- (a) Either to the extent of 20% of proposed issue size or to the extent of 20% of post-issue cap.
- (b) In case of composite issue, to the extent of 20% of proposed issue size or 20% of post-issue capital **excluding the rights issue capital**
- (2) The minimum promoters' contribution shall be as follows:
 - (a) Promoter shall contribute 20% either by way of **equity shares or convertible securities**.
Provided that if, **price of ES** pursuant to conversion is not pre-determined & not disclosed in offer doc., then promoter shall subscribe to those **convertible securities issued in public issue** and undertake to subscribe to ES pursuant to conversion.
 - (b) If there is **issue** of convertible securities convertible on **different dates** and promoter's contribution is by way of equity shares, then price of ES **shall not be less than weighted average price** of equity share capital arising on conversion.
- (3) In case of **FPO/Composite issue**, if promoter proposes to contribute **more than min. cont.** such excess contrn. shall be at a **price determined as per Regln. 164 or issue price, whichever is higher**.
- (4) Promoter shall satisfy the requirements **atleast 1 day prior** to opening of issue. and the amt. shall be kept in an **escrow account with Sch. Commercial Bank**, and to be **released along with issue proceeds**.

Where minimum contribution is **>more than Rs. 100 crores**, and FPO is of **partly paid shares**, then promoter shall contribute **atleast Rs. 100 crores before issue opening** and remaining contribution may be made on **pro-rata basis before calls** are made to public.
- (5) **SR eq. shares** of promoters, if any, shall be **eligible** towards **computation of min. promoters' contrn.**

Explanation - Post issue capital shall be computed **assuming full conversion** of proposed **convertible securities** and **exercise of all vested options** o/s at time of FPO.

Securities ineligible for minimum promoters' contribution (Regulation 114)

- (1) For computation of minimum contribution, following securities **shall not** be eligible:
 - (a) securities acquired during the **preceding 3 years**, if these are:
 - (i) acquired for **other than cash & revaluation of asset/capitalization of intangible assets**, or
 - (ii) resulting from **bonus** by utilization of **unrealized profits/revaluation reserves** or **bonus issued against ES** which are **ineligible for minimum promoter contribution**
 - (b) securities pledged **with creditor** other than those for **borrowings** by the issuer/its subsidiaries
- (2) Securities referred in (1)(a) **shall be eligible**, if they are **acquired pursuant to scheme approved by HC/Tribunal/CG u/s 230 to 234 of Companies Act, 2013**.

LOCK-IN AND RESTRICTIONS ON TRANSFERABILITY

Lock-in of specified securities held by the promoters (Regulation 115) - Same as Regulation 16

Lock-in of specified securities lent to stabilising agent under the green shoe option (Regulation 116)
- Same as Regulation 18

Lock-in of Partly-paid securities (Regulation 117)

In case of **partly paid securities**, where amount called up is **less than amount called on public issue**, then lock-in shall end **after 18m** from when the securities become pari-passu to securities issued to public.

Inscription or recording of non-transferability (Regulation 118) - Same as Regulation 20

Pledge of locked-in specified securities (Regulation 119)

Specified securities (except SR Equity) **held by promoter & locked-in** may be pledged as collateral for a loan by Scheduled Commercial bank/PFI/SI-NBFC/HFC, subject to, if:

- (a) Locked in as per Regln.115(a) - considered that **loan granted** to issuer co./it's subsidiaries + for financing **1 or more obj. of the issue** and **pledge of securities** is one of the term of loan.
- (b) Locked in as per Regln.115(b) - **pledge of securities** is one of the terms of loan

Transferability of locked -in specified securities (Regulation 120)

Locked in sec. (except SR equity) shall be **transferred**, held by Promoter & locked-in as per Regln.115, to another **promoter/any person of promoter group/new promoter/person in control of issuer**.

Provided lock-in period shall **continue** post trf. & transferee shall **not be eligible** to trf. them till then.

DISCLOSURES IN AND FILING OF OFFER DOCUMENTS

Regulations 122 to 124:

122- Disclosures in the draft offer document and the offer document	Same as Regulation 24
123- Filing of the draft offer document and offer documents	Same as Regulation 25
124- Draft offer document & offer document to be available to the public	Same as Regulation 26

PRICING

Face value of equity shares (Regulation 125)

The disclosure about **face value of ES** shall be made in **draft offer/offer document, advertisement & application form** along with price band or issue price in **identical font size**.

Pricing (Regulation 126)

- (1) The issuer may determine, in **consultation with LM (or)** through book-building process:

In case of equity
shares- **Price**

In case of **convertible securities** -
coupon rate & conversion price

- (2) The issuer shall undertake **book-building process** in manner specified in **Schedule XIII**.

Price and price band (Regulation 127) - Same as Regulation 29

Differential pricing (Regulation 128)

- (1) The issuer may offer securities **at different prices**, subject to:
- (a) Retail individual investors/shareholders or employees entitled to reservation - **at a price not lower than by more than 10%** of price offered to other categories (excl. anchor investors)

- (b) In case of book-built issue - Price offered to **anchor investor** shall **not** be less than price offered to others.
- (c) In case of composite issue, the price offered in public issue **may be different** from price offered in rights issue and **justification** for such diff. shall be given in offer document
- (d) If case, issuer opts for **alternative method of book building**, then issuer may offer to its employees at a **price not lower by more than 10% of floor price**.

(2) Discount, if any shall be expressed in **rupee terms**.

ISSUANCE CONDITIONS AND PROCEDURE

Allocation in the net offer (Regulation 129)

(1) In an issue made through **book-building process** under Regn. 103(1), the allocation in the net offer category shall be as follows:

(a) not less than 35%
to retail individual
investor

(b) not less than 15%
to non-institutional
investor

(c) not more than 50% to QIBs, and
5% of which shall be allocated to
mutual funds

(2) In an issue made through **book-building process** under Regn. 103(2), the allocation in the net offer category shall be as follows:

(a) not less than 10%
to retail individual
investor

(b) not less than 15%
to non-institutional
investor

(c) not more than 75% to QIBs, and
5% of which shall be allocated to
mutual funds

For both (1) & (2), Provided that **unsubscribed portion** in (a) & (b) may be allotted to **applicants in other category**.

Provided further, **in addition to 5%** allocation available in (c), **MF** shall be eligible for allocation under **balance available QIBs**.

(3) In an issue through book-building, the issuer may **allocate upto 60%** of portion available for QIBs (as per (c)) **to anchor investors**.

(3A) In an issue through book-building, allocation to **non-institutional investor** shall be as follows:

Sub Clause	Portion Reserved	Application size
(a)	One-third (1/3rd)	More than 2 lacs and upto 10 lacs
(b)	Two-third (2/3rd)	More than 10 lacs

Provided that, **unsubscribed portion** in either (a) or (b) may be allocated to applicants in the **other sub-category of non-institutional investors**.

(4) In an issue **other than** book-building process, allocation in net offer category shall be as follows:

(a) **Minimum 50%** to retail individual investor

(b) Remaining to: (i) **other individual investors** (ii) **other investor incl. corp. bodies or institutions**

Provided that, unsub. portion in either of (a)/(b) may be allocated to applicants in other category.

Explanation - For the purpose of (4), if retail indiv. investor category is entitled to more than 50% of issue size on proportionate basis, the retail indiv. investor shall be allocated higher percentage.

Reservation on a competitive basis (Regulation 130)

(1) Issuer may make **reservations on competitive basis** out of issue size **excl. promoters' contn.** in favour of:

(a) **Employees**

(b) **SHs** (other than promoter & promoter group) of **listed subsidiaries & listed promoter cos.**

However, issue **shall not** make reservations for,

- **LMs, Registrar or syndicate member(s)**, or their promoter, director & employees (P,D & E)
- **Group or associate companies** of LM, Registrar or syndicate member(s) or their P,D & E

(2) In **FPO, other than composite issue**, issuer may make **reservation** on competitive basis out of issue size (excl. Promoter Cont.) for **existing retail individual investor** of issuer.

(3) Reservation on competitive basis shall be made **subject** to following conditions:

(a) Aggregate of **employee reservation** shall **not exceed 5% of post-issue capital** & value of allotment shall **not exceed 2 lac rupees**.

In case of **under-subscription** in employee reservation, the **unsubscribed portion** shall be allotted on **proportionate basis**, subject to **max. allotment of 5 lacs rupees** to an employee.

(b) Reservation for **shareholders** shall **not exceed 10%** of the issue size;

(c) **Further application** for subscription in net offer **cannot** be made by **person in favour of whom reservation** is made.

(d) Any **unsubscribed portion** in any reserved category **may be added** to any **other reserved category**, and any **unsubscribed portion**, after inter-se adjustment among reserved category shall be **added to net offer category**.

(4) An applicant in any **reserved category** may make an application for **any number** of specified securities, but **not exceeding** the **reserved portion** for that category.

Abridged prospectus (Regulation 131)

(1) Abridged prospectus shall contain the **disclosure as per Part E - Schedule VI**. It shall **not** contain anything any **matter irrelevant** to contents of offer document.

(2) Every **application form** distributed in relation to issue **shall be accompanied** by abridged prospectus

Availability of issue material (Regulation 133)

The LM shall ensure **availability** of offer **doc. & other issue mater incl. appln form** before issue opening to:

SE

Syndicate Member

Registrar

Registrar & Share Trf. Agent

DP

Underwriter

Bankers

Inv. Associations

Self-Certified Syndicate Bank

Stock Brokers

Prohibition on payment of incentives (Regulation 134)

- Any person connected with issue, **shall not offer any incentive** (direct/indirect),
- whether in **cash or kind or services or otherwise** to any person for making an application in IPO
- except** for **fees or commission for services rendered** in the issue.

Security deposit (Regulation 135)

- The issuer shall **before** opening of subscription list, **deposit** with designated SE, an amount calculated at **1% of the issue size** available for **public subscription** as public deposit.
- The above amount **shall be refundable** in manner specified by SEBI.

Underwriting (Regulation 136)

- If issuer making **FPO (other than through book-building)**, desire to have issue **underwritten**, it shall **appoint merchant bankers or stock brokers** (regd. under SEBI) to underwrite the issue.
- If the issuer makes a **public issue through book-building**:
 - Issue shall be underwritten by **LMs & Syndicate Members (SM)**
Provided that, at least **75% of net offer** to be compulsorily allotted to QIBs in compliance with Regn.103(2) **shall not be underwritten**.
 - Prior to filing prospectus, the issuer shall enter into **underwriting agreement with LMs & SMs**, indicating **no. of sec.** to be subscribed at pre-determined price in case of **under-subscription**.
 - If the **SMs fail to fulfil their underwriting obligations**, it shall be fulfilled by **LMs**.
 - LMs & SMs shall not** subscribe to issue in any manner **except for fulfilling their u/w obligns.**
 - Where the issue is underwritten, **u/w obligns** should be **atleast to the extent of min. subns.**

Monitoring agency (Regulation 137)

- If the **issue size excl. OFS by selling SHs, exceeds 100 crores**, the issuer shall make **arrangements** for **use of proceeds of issue** to be monitored by credit rating agency regd. by SEBI.
Provided that, this **shall not apply** to issue by **bank/PFI/insurance company**.
- Monitoring agency shall **submit its report** to issuer on **quarterly basis**, till **100% of issue proceeds are utilized**.
- BOD & management shall provide their **comments on the findings** of the monitoring agency.
- Issuer shall, **within 45 days** from end of each quarter, **publicly disseminate** the above report by uploading the same on its **website** and **submitting it to stock exchange**.

Issue-related advertisements (Regulation 139)

- (1) Subject to provisions of Companies Act, 2013 issuer shall, after filing prospectus with ROC, make **pre-issue advertisement** in 1 English, Hindi & regional language daily newspaper.
- (2) Pre-issue advt. shall be in **format** and shall **contain disclosure** specified in **Part A of Schedule X**.
Provide that, **disclosure w.r.t price band/floor price** shall be applicable **only** in case of **Regln. 127(4)**
- (3) Issuer may release **advertisement** for **issue opening & issue closing**, in the **format** specified in **Parts B & C of Schedule X**.
- (4) During the period, when the issue is **open for subscription**, no advt. shall be released giving an **impression** that issue has been **fully subscribed or over-subscribed or indicating investors' response**.

Opening of the issue (Regulation 140)

- (1) A public issue may be **opened within 12m** from **date of issuance of observations** by Board u/r 123(4)
Provided that, in case of **fast-track issue**, issue shall open **within period specified under Cos. Act**
- (2) In case of **shelf prospectus**, the **1st issue** may be **opened within 3m** of **issuance of obsvns.** by Board.
- (3) The issue shall be opened after **at 3 working days** from date of filing of (with ROC):

Red-herring prospectus - in case of book-built issue

Prospectus in case of fixed price issue

Regulations 141 to 147 (except 143 and 148) :

141- Minimum subscription	Same as Regulation 45
142- Period of subscription	Same as Regulation 46
144- Manner of calls	Same as Regulation 48
145- Allotment procedure and basis of allotment	Same as Regulation 49
146- Allotment, refund and payment of interest	Same as Regulation 50
147- Post-issue Advertisements	Same as Regulation 51
149- Release of subscription money	Same as Regulation 53

Application and minimum application value (Regulation 143)

- (1) A person shall **not make an application** in net offer category for number of securities that **exceeds** total number of securities offered in the issue.
Provided that, **maximum application by non-institutional investor** shall **not exceeds** total number of securities offered in the issue **less** total number of **securities offered in the issue to QIBs**
- (2) Issuer shall stipulate **minimum application size** in terms of **number of securities** within the range of **minimum application value of Rs.10,000-Rs.15,000**.
- (3) Issuer shall invite application in **multiples of minimum application Value**

- (4) Minimum price payable shall be **atleast 25%** of the issue price. Provided that, in case of OFS, **full price** of security shall be paid at time of application.

Post-issue responsibilities of the lead manager(s) (Regulation 148)

- LMs shall regularly monitor redressal of investor grievances arising from any issue related issue.
- LM shall continue to be responsible for post-activities till
 - Applicants have received their sec. certificate, credit to their demat, or refund of monies and
 - Listing agreement is entered by issuer with SE and listing or trading permission is obtained.
- LMs shall be responsible & co-ordinate with registrars and various intermediaries at regular intervals after closure of issue to monitor the flow of issue, processing of applications (incl. ASBA), & other matters till basis of allotment is finalised, credit of securities to demat, unblocking of ASBA/ refund of monies and listing of securities.
- Any act of omission/commission on the part of any of intermediaries noticed by the LM(s) shall be duly reported by them to the SEBI.
- In case of devolvement of underwriters, LM shall ensure that notice for devolvement containing underwriter's obligation is issued within 10 days from closure of issue.
- In case of undersubscribed issues that are underwritten, LM(s) shall furnish information to SEBI w.r.t underwriters who have failed to meet their underwriting devolvement in the format specified in Schedule XVIII.

Post- issue reports (Regulation 150)

LMs shall submit a **final post issue report** specified in Part A of Schedule XVII, **along with DDC** as per Form F of Schedule V, **within 7 days** of date of **finalisation of basis of allotment or refund of money** in case of failure of issue.

MISCELLANEOUS

Restriction on further capital issues (Regulation 151)

An issuer shall **not make further issue** of sec. in any manner **except by way of emp. stock option scheme:**

- (a) In case of **fast track issue** - b/w **date of filing offer document/prospectus with ROC** and date of **listing of securities or refund of application monies**
- (b) In case of **other issue** - b/w **date of filing draft offer document** and date of **listing or refund of application monies**, unless **full disclosure regarding the total number of securities/amount proposed** to be raised from such further issue are **made in draft offer/offer document**.

Price stabilisation through green shoe option (Regulation 153) - Same as Regulation 5

THE SEBI (SAST) REGULATIONS, 2011

Takeover: When an "acquirer" takes over the **control** of the "Target Company", it is termed as Takeover.

Substantial Acquisition: When an acquirer acquires "**substantial quantity of shares or voting rights**" of the Target Company, it results into substantial acquisition of shares.

Applicability:

These regln. shall apply to **direct & indirect acq. of shares/voting rights in or control** over target co. Provided that, these regulation **shall not apply**, if the target company is **listed w/o making a public issue**, on the **Innovators Growth Platform** of a recognised stock exchange.

Relevant Terminologies (Regulation 2(1))

(1) Acquirer - means any person,

- who directly or indirectly, **acquires or agrees to acquires**
- whether by himself, or through or with **persons acting concert** with him,
- **shares or voting rights in or control** over the target company

(2) Control - includes the

- **Right to appoint majority of the directors** or
- **Control the mgt. or policy decisions** exercisable by a person/persons (individually/in-concert)
- Including by virtue of their S/H/mgt. rights/S/H/voting agreements/any other manner

Provided that, a **director/officer** of target company **shall not** be considered to be in control, merely **by virtue of holding such position**.

(3) Disinvestment - **sale of shares/voting rights/control in PSU** by **CG/SG/Government** company

(4) Offer Period - Period **between**

- Date of **entering into agreement to acquire shares/voting rights/exercise control** or date of **public announcement**,
- Date of **payment of consideration** to shareholders who accepts the offer or date when **open offer** is withdrawn

(5) Shares-means **shares in the ESC of a Target co.** carrying voting rights, & incl. **any security** which **entitles** the holder thereof to **exercise voting rights**. For the purpose of this clause shares will **include all depository receipts** carrying an entitlement to **exercise voting rights** in the target co.

(6) Target Company (TC) - means a **company & incl. a BODy corporate or corporation** established under any legislation for the time being in force, whose shares are **listed on a stock exchange**.

(7) Persons acting in concert (PAC) - means

- (a) Persons who **co-operate** for acquisition of shares/VR/exercise of control over the target company, pursuant to **an agreement/understanding**, formal or informal, direct or indirect

(b) Persons falling within following categories shall be deemed to be PAC with other persons :

- (i) a co., its holding, subshy & any co. under the same mgmt or control
- (ii) a co., its dirs., & any person entrusted with mgmt of the co.
- (iii) dirs. of co.s referred to in item (i) and (ii) & ***associates** of such dirs
- (iv) promoters & mem. of the promoter group;
- (v) immediate relatives
- (vi) a MF, its sponsor, trustees, trustee co. & asset mgmt co.
- (vii) a collective invt. scheme & its collective invt. mgt. co., trustees & trustee co.
- (viii) a venture capital fund and its sponsor, trustees, trustee co. & asset mgmt co.
- (viiia) an alternative investment fund & its sponsor, trustees, trustee co. & manager
- (ix) omitted
- (x) a merchant banker and its client, who is an acquirer
- (xi) a portfolio manager and its client, who is an acquirer;

- (xii) banks, financial advisors and stock brokers of the acquirer, or of any co. which is a holding or subshy of the acquirer, and where the acquirer is an individual, of the immediate relative of such individual: Provided that this sub-clause shall not apply to a bank whose sole role is that of providing normal commercial banking services or activities in relation to an open offer under these regulations;
- (xiii) an investment co. or fund and any person who has an intt. in such investment co. or fund as a SH or unitholder having $\geq 10\%$ of the paid-up cap. of the investment co. or unit cap. of the fund, and any other investment co. or fund in which such person or his ***associate** holds $\geq 10\%$ of the paid-up cap. of that investment co. or unit cap. of that fund: Provided that nothing contained in this sub-clause shall apply to holding of units of MFs registered with the Board.

***associate of a person means**

any immediate relative of such person

trusts of which person or his immediate relative is a trustee

partnership firm in which he or his immediate relative is a partner

members of HUF of which such person is a co-parcener

SUBSTANTIAL ACQUISITION OF SHARES, VOTING RIGHTS OR CONTROL

Substantial acquisition of shares or voting rights (Section 3)

Threshold limits for acquisition of shares/voting rights:

- (1) An acquirer **shall not** acquire any shares/VR in a TC, which taken together with shares/VR already held by him or PAC, **entitles them to exercise 25% or more of the VR in the TC**, unless a **public announcement of an open offer** for acquiring shares is made in accordance with these regulations. (if **existing + proposed $\geq 25\%$** , then public announcement to be made for proposed acquisition)
- (2) An acquirer, who along with PAC, has **acquired & holds 25% or more of shares/VR** but **less than maximum permissible non-public shareholding in TC**, shall not acquire within any FY, additional shares/VR entitling them to exercise more than 5% of the VRs, unless a **public announcement of an open offer** for acquiring shares of such TC is made.

Provided that, **acq. beyond 5% but upto 10% of the VRs shall be permitted** for the **FY 2020-21** only in respect of **acq. by a promoter pursuant to preferential issue of equity shares** by the target co.

Provided that, such acquirer shall not be entitled to acquire or enter into agreement to acquire shares or VR that would take the aggregate shareholding (post acq.) above maximum permissible non-public shareholding.

Provided further that, acquisition pursuant to RP approved under IBC, 2016 shall be exempt from the obligation under proviso to Regulation 2(3).

- (3) For the purpose of (1) & (2), if acquisition of shares by any person results, that individual shareholding of such person exceeds that stipulated threshold, then the obligation to make an open offer shall be attracted, irrespective whether there is change in aggregate shareholding with PAC.
- (4) Nothing contained in this regln. shall apply to acquisition of shares or VR of a co. by the promoters/ SHs in control, in terms of the provisions of Ch-VI-A of SEBI(ICDR) Regulations 2009.
- (5) For the purpose of this regulation, any reference to "25%" in case of listed entity which has listed its specified securities on Innovators Growth Platform shall be read as "49%".

Acquisition of control (Regulation 4)

- No acquirer shall, directly or indirectly, acquire control over such TC, unless the acquirer makes a public announcement of an open offer for acquiring shares of the TC.
- An Open Offer is an offer made by the acquirer to the SHs of the TC inviting them to tender their shares in the TC at a particular price. The primary purpose is to provide an exit option to SHs of the TC on account of change in control/substantial acquisition of shares in the TC.
- A Voluntary Open Offer is an offer made by person himself or through PAC, holding 25% or more shares/VR in TC but less than max. permissible non-public shareholding limit.
- Offer Price is the price at which the acquirer announces to acquire shares from the public shareholders under the open offer. Acquirer can make an upward revision to the offer price at any time up to 3 working days prior to the opening of the offer.

OBLIGATIONS

Following are the obligations of the Directors, Acquirers and of the Target company:

Directors of the target company (Regulation 24)

- (1) During the offer period, no person representing the acquirer or PAC shall be appointed as director on the BOD of the TC, whether as an additional director or casual vacancy.

Provided that, after initial period of 15 days from date of detailed public statement, above appointment may be effected, in the event acquirer deposits the entire consideration payable in cash under open offer in the escrow account.

Provided that, where acquirer has specified conditions to open offer in terms of Regln. 23(1)(c), above appointment shall not be made, unless the acquirer has waived or attained such conditions & complies with depositing cash in an escrow account.

- (2) Where the open offer is made conditional upon min. level of acceptance, acquirer/PAC shall not be entitled to appoint any director, representing them on BOD of TC during the offer period. 'Min. level of acceptance' implies min. no. of shares which the acquirer desires under condnl. offer. If the no. of shares tendered in the conditional offer, are less than the min. level of acceptance stipulated by the acquirer, then the acquirer is not bound to accept any shares under the offer.

- (3) During the pendency of competing offers by any acquirer/PAC, there shall be no induction of any new director to the BOD of TC.

In the event of death or incapacitation of any director, vacancy arising may be filled by any person subject to approval of such appointment by SHs of the target company by way of a postal ballot.

- (4) If acquirer/PAC is already represented by any person on the BOD of TC, then such director shall not participate in any deliberation or vote on any matter relating to open offer.

Obligations of the acquirer (Regulation 25)

- (1) Prior to making public announcement for open offer, the acquirer shall ensure firm arrangements have been made for fulfilling the payment obligations under the open offer & is able to implement the open offer.
- (2) In the event, the acquirer has not declared in the detailed public statement & letter of offer, the intention to alienate any material assets of TC/any of its subsidiaries by way of sale, lease, encumbrance or otherwise o/s OCOB, acquirer shall be debarred from causing such alienation for 2 years after offer period.

Provided that, if the TC is required to alienate as above despite not having expressed such intentions, such alienation shall require a SR passed by SH of TC by postal ballot and it shall contain reasons to why such alienation is necessary.

- (3) The acquirer shall ensure that contents of public announcement, detailed public statement, letter of offer & post-offer advt. are true, fair & adequate in all material aspects & not misleading and are based on reliable source and state the source wherever necessary.
- (4) The acquirer & PAC with him shall not sell shares of the TC held by them, during the offer period.
- (5) The acquirer & PAC with him shall be jointly & severally responsible for fulfillment of applicable obligations under these regulations.

Obligations of the target company (Regulation 26)

- (1) Upon a public announcement of open offer, the BOD of TC shall ensure that the business of TC is conducted in the ordinary course consistent with past practice during the offer period.
- (2) During the offer, unless approval of SHs of TC by SR through postal ballot is obtained, BOD of TC/any of its subsidiaries shall not:
- (a) Alienate any material asset by sale/lease/encumbrance/otherwise or enter into agreement o/s OCOB

- (b) Effect any material borrowings outside OCOB
- (c) Issue/allot any authorised but unissued securities entitling holder to voting rights.

Provided that TC or its subsidiaries may issue/allot shares:

- (i) upon conversion of convertible securities issued prior to public announcement
- (ii) pursuant to public issue where RHP has been filed with ROC before public announcement
- (iii) pursuant to rights issue where record date has been announced before public announcement

- (d) Implement any buy-back of shares or effect any other change to the capital structure of the TC
- (e) Enter/terminate/amend any material contracts o/s OCOB, where the TC/its subsidiary is a party, whether such contract is with related party or any other person
- (f) accelerate any contingent vesting of a right of any person to whom the TC/any of its subsidiaries may have an obligation.

- (3) In GM of a subsidiary of TC, the TC & its subsidiaries, if any, shall vote in a manner consistent with SR passed by SHs of TC, on matters referred in (2).
- (4) TC shall be prohibited from fixing record date for any corporate action on/after 3rd working day prior to commencement of tendering period and until its expiry. (3 days before tendering period)
- (5) TC shall furnish to acquirer within 2 working days from identified date, a list of SHs of TC containing names, addresses, shareholding & folio no., in electronic form and list of application of person whose registration of transfer of shares is pending with TC.

Provided that, acquirer shall reimburse reasonable costs payable by TC to external agencies for above information.

- (6) Upon receipt of detailed public statement, the BOD of TC shall constitute a committee of independent directors to provide reasoned recommendations on open offer and TC shall publish such recommendations.
Provided that such committee shall be entitled to seek external professional advice at exp. of TC. Provided further that, while providing reasoned recommendation on open offer, the committee shall disclose the voting pattern of meeting in which open offer was discussed.
- (7) Committee of IDs shall provide reasoned recommendations on open offer to SHs of TC & such recommendations may be published atleast 2 working days before commencement of tendering period, in the same newspaper where public offer was made & a copy of the same shall be sent to:

SEBI

SEs where shares of TC are listed

Manager to open offer

where there are competing offer, manager to open offer for every competing offer

- (8) BOD of TC shall facilitate the acquirer in verification of shares tendered in open offer.
- (9) BOD of TC shall make available any information and provide co-operation to all acquirers making competing offers.
- (10) BOD of TC shall w/o any delay register the trf. of shares acquired by acquirer in physical form.

Obligations of the manager to the open offer (Regulation 27)

- (1) Prior to public announcement, the manager to the open offer **shall ensure**, that:
 - (a) the acquirer is **able to implement the offer**, and
 - (b) **firm arrangements for funds** have been made **to meet the payment obligations** under open offer
- (2) The manager shall ensure that **contents** of public announcement, detailed public statement, letter of offer & post-offer advt. are **true, fair & adequate in all material aspects & not misleading** and are based on **reliable source and state the source** wherever necessary.
- (3) The manager shall furnish a **DDC to SEBI along with draft letter** of offer filed under Regln. 16.
- (4) The manager shall ensure that **mkt. intermediaries** engaged for open offer are **regd. with SEBI**.
- (5) The manager shall **exercise diligence, care & professional judgment** to ensure compliance with reglns.
- (6) The manager shall **not deal on his own A/C** in the **shares of the target co.** during the offer period.
- (7) He shall **file a report with SEBI within 15 working days** from expiry of tendering period, **confirming status of completion** of various open offer requirement.

DISCLOSURES OF SHAREHOLDING AND CONTROLDisclosure-related provisions (Regulation 28)

What all to be included under the disclosures ?

- **Aggregate shareholding & voting rights** of acquirer/promoter of TC or every PAC with him
- **Convertible security** shall also be **regarded as shares**, & disclosures of such holdings shall also be made
- Upon receipt of the disclosures, the **SE shall disseminate the information** so received.

Disclosure of acquisition and disposal (Regulation 29)

- (1) An acquirer together with PAC acquiring shares/VR which **aggregates to 5% or more** of shares of TC, then they shall **disclose their shareholding & VRs** in such TC.

Provided that, if listed entities have **listed securities on IGP**, then **"5% shall be read as 10%"**

- (2) Any person, along with PAC, **entitling them to 5% or more of shares/VRs** in TC, they shall disclose the **no. of shares/VRs held & change in shareholding/VRs** from the last disclosure, even if such change results in holding below 5%, & if such change exceed 2% of shareholding/VR in TC.

Provided that, if listed entities have **listed securities on IGP**, then **"5% shall be read as 10%" & "2% shall be read as 5%"**.

- (3) Disclosure shall be made within **2 working days of receipt of intimation** of allotment or acquisition or disposal of shares/VRs in TC:

(a) SE where shares of TC are listed

b) registered office of TC

- (4) Shares taken by way of encumbrance shall be treated as acquisition and shares given back by release of encumbrance shall be treated as disposal & hence, the required disclosure as above shall be made.

N.A to Scheduled Commercial Bank/PFI/HFC/SI-NBFC, as a pledgee for securing indebtedness.

Disclosure of encumbered shares (Regulation 31)

- (1) The promoter of every TC shall disclose details of shares encumbered by him along with PAC.
- (2) The promoter of every TC disclose the details of any invocation/release of encumbrance of shares.
- (3) The disclosure as per (1) & (2) shall be made within 7 working days from creation/invocation/release of encumbrance to:

(a) SE where shares of TC are listed

b) registered office of TC

- (4) The promoter of TC along with PAC shall disclose on yearly basis, that they have not made any other encumbrance, directly/indirectly, other than those disclosed during FY.
- (5) The declaration in (4) shall be within 7 working days from end of FY to above persons mentioned in 3(a) & (b)

SEBI (PROHIBITION OF INSIDER TRADING) REGULATIONS., 2015

Insider trading involves **dealing in a company's securities** on the basis of **confidential information**, which is not **published or not known to the public** (known as 'unpublished price sensitive information' - UPSI), used to **make personal profits or avoid loss**.

SEBI (PIT) Regulations puts in place a **framework for prohibition of insider trading** in securities.

Definitions (Regulation 2)

- **Insider** - means any person who is (i) a connected person or (ii) in possession of or having access to UPSI
- **Connected Person** - means
 - (i) any person
 - who is/has during the period of **6m prior to concerned act** been associated with a company
 - in **any capacity**
 - with its **officer**, or
 - by being in **any contractual, fiduciary or employment relationship**, or
 - by being a **director, officer or an employee of the company**
 - by holding **any position, incl. a professional/business relationship** (temporary or permanent)
 - that allows such person, **access to UPSI or is reasonably expected to allow such access**.
 - (ii) the persons falling within the following categories shall be deemed to be connected persons:

<ul style="list-style-type: none"> (a) an immediate *relative of connected persons specified in clause (i) (b) a holding or associate or sub company (c) an intermediary as specified in section 12 of the Act or an employee/dir. thereof; (d) an investment co., trustee co., asset management co. or an employee or director (e) an official of a SE or of clearing house or corporation 	<ul style="list-style-type: none"> (f) member of board of trustees of a MF or a member of the BOD of the AMC of a MF or is an employee (g) member of the BOD or an employee, of a public financial institution (h) official or an employee of a self-regulatory organization recognised or authorized by SEBI (i) banker of the company (j) a concern, firm, trust, HUF, co. or AOP, wherein a dir. of a co. or his immediate relative or banker of the co., has > 10% of the holding or interest
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***Relative** - means a spouse of a person, and includes parent, sibling, and child of such person or of the spouse, any of whom is either dependent financially on such person, or consults such person in taking decisions relating to trading in securities;

- **Generally available information** - info. that is **accessible to public on non-discriminatory basis**. Any info. published on the **website of a SE**, would ordinarily be **considered generally available**.

- **UPSI** - means any information relating to securities or company, that is not generally available, which upon becoming generally available, is likely to materially effect the price of securities & ordinary includes but not restricted to following information:
(i) financial results (ii) dividends (iii) change in capital structure (iv) changes in KMP
(v) mergers, demergers, acquisitions, delistings & expansion of business & such other transaction
- **Trading** - means & incl. subscribing, redeeming, switching, buying, selling, dealing, or agreeing to subscribe, redeem, switch, buy, sell, deal in any securities, & "trade" shall be construed accordingly.

RESTRICTIONS ON COMMUNICATION AND TRADING BY INSIDERS

Communication or procurement of unpublished price sensitive information (UPSI) (Regulation 3)

- (1) No insider shall communicate, provide or allow access to UPSI, relating to a company or securities (listed or proposed to be listed) to any other person incl. other insiders, except where such communication is in

furtherance of legitimate purposes

performance of duties

discharge of legal obligations

- (2) No person shall procure from or cause the communication by an insider of UPSI, relating to company or securities (listed or proposed to be listed), except for above 3 purposes.

- (2A) BOD of listed company shall make a policy for determination of "legitimate purposes" as a part of "Codes of Fair Disclosure and Conduct" formulated under Regulation 8.

Explanation - Legitimate purpose shall incl. sharing of UPSI in OCOB by an insider with partners, collaborators, lenders, customers, suppliers, merchant bankers, legal advisors, auditors, insolvency professionals or other advisors or consultants done w/o evading or circumventing these regulations.

- (2B) Any person in receipt of UPSI pursuant to legitimate purpose shall be considered as "insider" and due notice shall be given to such person to maintain confidentiality of such UPSI.

- (3) An UPSI maybe communicated, provided, allowed access to or procured, in a transaction that would:
- (a) Entail an obligation to make an open offer under the takeover regulations where BOD of the listed co. is of informed opinion that sharing of such info. is in the best interests of the co.
 - (b) Not attract an obligation like (a) but where BOD of listed co. is of informed opinion that sharing of such info. is in the best intt. of the co. & the info. that constitute UPSI is disseminated to be made generally avl. at least 2 trading days prior to the proposed transn. being effected.

- (4) For communication of UPSI, BOD shall require the parties to execute agreements to contract confidentiality and non-disclosure obligation. Such parties shall keep the information received confidential and shall not trade in the securities of the company during possession of UPSI.

- (5) BOD/Head of org. of every person required to handle UPSI shall ensure a *Structured Digital Database (SDD) is maintained containing:

Nature of UPSI

Name of person who have shared UPSI

Name of person who have recd. UPSI with PAN

Such database shall not be outsourced & maintained internally with adeq. internal control & checks.

***SDD:**

- The requirement to maintain SDD is applicable to Listed Co, & Intermediaries and Fiduciaries who handle UPSI of a Listed co. in the course of business operations.
- They shall record nature of UPSI shared, details of the Sender & Receiver along with their PAN or other unique identifier (in case PAN is not available).
- Databases/servers provided by 3rd party vendors (within/o/s India) will be considered as outsourced
- Records shall be updated in SDD as & when the information gets transmitted (irrespective of the fact that information is shared within or outside the company).

(6) BOD/head of org. required to handle UPSI shall ensure that SDD is **preserved** for a period of **not less than 8 years after completion of relevant transactions** & in case of receipt of info. from SEBI regarding **investigation/enforcement proceedings**, till the **completion of such proceedings**.

Trading when in possession of UPSI (Regulation 4)

(1) No insider **shall trade** in sec. that are listed or proposed to be listed, when **in possession of UPSI**
Explanation - When a person has traded who has in possession of UPSI, his trades would be **presumed** to have been **motivated by knowledge & awareness** of such information.

Provided that, insider **may prove his innocence** by demonstrating the circumstances including **transaction** that is :

(i) **Off-mkt inter-se transfer b/w insiders** in possession of same UPSI w/o breach of Regulation 3 and both parties made a conscious & informed trade decision.

Provided that such UPSI was **not obtained under Regulation 3(3)** of these regulations.

Further, such off-market trades shall be **reported by the insiders to the company within 2 working days**. Every company shall **notify the trades to SE within 2 trading days** from receipt of disclosure/ becoming aware of information.

(ii) Carried out through the **block deal window mechanism** b/w persons in possession of same UPSI w/o breach of Regulation 3 and both parties made a conscious & informed trade decision.

(iii) Carried out pursuant to **statutory/regulatory obligation**

(iv) Carried out pursuant to the **exercise of stock options** where exercise price was pre-determined

(v) In case of non-individual insiders:

(a) **Individual in possession of UPSI** were **different** from **individual taking trading decisions**, who were not in possession of UPSI, and

(b) **Appropriate & adequate arrangements** were in place to ensure regulations are not violated and no evidence that such arrangements having breached.

(vi) pursuant to a **trading plan set up** in accordance with regulation 5

(2) The **onus of establishing** that they were **not in possession of UPSI** would be on:

- In case of connected person - themselves
- In case of others - the Board (SEBI)

(3) SEBI may specify **such standards & requirements**, necessary for the purpose of these regulations.

Trading Plans (Regulation 5)

- (1) An insider shall be entitled to **formulate** a trading plan and **present** it to Compliance Officer (CO) for approval and public disclosure pursuant to which trades may be made according to the plan.

This provision intends to give an option to insider in possession of UPSI to trade in securities.

- (2) Such trading plan shall :

- (i) not entail commencement of trading on behalf of the insider **earlier than 6 months** from the public disclosure of the plan.
- (ii) not entail trading b/w **20th trading day** prior to last day of any financial period for which results are required to be announced & **2nd trading day** after disclosure of such financial results.
- (iii) Entail trading for period of not less than 12 months
- (iv) not entail overlap of any period for which another trading plan is already in existence
- (v) set out either, the value of trades to be effected or no. of securities to be traded, along with the nature of the trade & intervals at, or dates on which such trades shall be effected
- (vi) not entail trading in securities for market abuse

- (3) CO shall review the trading plan to assess for potential of any violation of regulations and be entitled to seek undertaking and to approve & monitor the implementation of plan.

Provided that pre-clearance of trades shall not be required for a trade executed as per an approved trading plan.

Provided further that trading window norms & restrictions on contra trade shall not be applicable for trades carried out in accordance with an approved trading plan.

- (4) The trading plan once approved shall be irrevocable & mandatorily have to implement the plan, without being entitled to either deviate or execute any trade in the securities outside the scope of the trading plan.

Provided that if UPSI in possession of insider at time of formulation has not become generally avl. at commencement, then commencement shall be deferred till such UPSI becomes generally avl..

- (5) Upon approval of the trading plan, co. shall notify the plan to SE on which the securities are listed.

DISCLOSURES OF TRADING BY INSIDERS
General provisions (Regulation 6)

- (1) Every **public disclosure** shall be made in such form as maybe specified.
- (2) Disclosures to be made by **any person concerned** including the **immediate relatives** & other persons for whom the person concerned takes trading decisions.
- (3) Disclosures of trading in securities shall also include **trading in derivatives of securities** and the traded value of the derivatives, provided trading in derivative is permitted by any law for time being in force.

The disclosure shall be maintained by company for a minimum period of **5 years**.

Disclosures by certain persons (Regulation 7)(1) Initial Disclosure

Every person on appt. as **KMP/director** of company or becoming a **promoter/member of promoter group** shall **disclose his holding of securities** to co. within **7 days** of such appt/becoming a promoter.

(2) Continual Disclosure

(a) Every **promoter/member of promoter group/designated person/director** shall disclose to co. the **no. of sec. acquired/disposed within 2 trading days**, if the **value** of sec. traded, whether in 1 or series of transn. over calendar yr. **exceeds Rs. 10 lakhs** or other value as maybe specified.

(b) Every company shall **notify** the particulars of such **trades** to SE within **2 trading days** of receipt of disclosure/becoming aware of such information

Explanation- Discl. of **each incremental transn. shall be made once the limit of Rs. 10L is crossed**. Basically, if prior trades have crossed Rs.10L, then all further trades shall be disclosed.

(c) The above disclosures shall be made in **such form and such manner** as may be specified by SEBI

- Upon filing disclosure under regulation 7(2)(b), each incremental transaction shall be disclosed after **breaching Rs. 10 lakhs**.
- **Market rates of trades** shall be taken for calculating the value of trades & market price shall **not** be **subtracted by commission/brokerage** etc.
- Disclosure to be filed irrespective of mode of acquisition **except bonus issue/received by way of scheme**.

Disclosures by other connected persons

Any company whose securities are listed on SE may at its discretion require **any other connected person/class of connected person** to make **disclosure of its holdings & trading in securities** in such form & frequency in order to monitor compliance with this regulation.

Brief process flow of submission to the SEBI [Regulation 7(B)]

- An informant shall **submit Original Information** in Voluntary Information Disclosure Form (VIDF) to Office of Informant Protection of SEBI
- **Format & manner** - set out in Schedule D & may be submitted by Legal Representative (LR)
- If not submitted through LR, SEBI may require informant to **appear in person to ascertain his/her identity & veracity of information**
- Informant while submitting VIDF shall **remove information** that could reasonably be expected to reveal his identity
- If removal of information not possible, informant **may identify such info./doc.** in the VIDF.

CODES

Code of Fair Disclosure (Regulation 8)

- (1) BOD of every listed co. shall **formulate & publish** in its website, a **code of practices & procedures** for **disclosure of UPSI** in order to adhere to principles set out in Schedule A to these regulation.
- (2) Every such above code & amendment thereto to be **promptly intimated to SE** where sec. are listed.

Code of Conduct (Regulation 9)

- (1) BOD of **every listed co.** or BOD/head of org. of **every intermediary** shall ensure that CEO/MD shall **formulate Code of Conduct** to regulate, monitor & report trading by its designated persons & their immediate relatives for achieving compliance with these regulations.
- (2) BOD/head of org. of **every other person** who is required to handle UPSI shall **formulate, monitor & report trading** by their designated persons & immediate relatives for achieving compliance with these regulations.

Every listed co., intermediary & other persons formulating a code of conduct shall **identify & designate a compliance officer (CO)** to **administer** the code of conduct & other requirements under these reglns.

BOD, shall in consultation with CO shall specify the designated persons on the basis of their function & role in the organisation which would provide them with UPSI and shall include:

- (i) Employees of listed co. or their material subdy., intermediary or fiduciary or designated on the basis of their functional role or access to UPSI in the org. by their BOD or analogous body;
- (ii) All promoters of listed co. & individual promoters or inv. co. for intermediaries or fiduciaries

Penalty for insider trading - Refer Section 15G of the SEBI Act, 1992

❖ ————— ❖ The End ❖ ————— ❖



Multiple Choice Questions

**Question:1 [Section:15G (SEBI Act)]**

Aayush, Bipin, Carroll & Co., a firm of CAs, was appointed as statutory auditor of Ruchika Flavours Limited, a listed company, for FY 2019-20. Mr. Bipin is the engaging partner of the said audit with a team of 15 members. While conducting audit of the financial statements of Ruchika Flavours Limited, 2 members of Mr. Bipin's team, who are CAs, passed the info. to their friends and relatives disclosing that profits of Ruchika Flavours Limited for this year are up by 25% in comparison to the previous FY. At the time of passing the info., it was not available in the public domain through the company. Certain persons who were in possession of this info., purchased the shares of Ruchika Flavours Limited at a low price. After the audited financials came into public domain, the market price of the shares increased sharply and they made profit by selling those shares. You are required to select the correct option which indicates whether it is a case of insider trading or not and if it is a case of insider trading then the quantum of penalty that can be levied under the SEBI, 1992.

- a) It is not a case of insider trading since both the CAs are part of statutory audit team and therefore, are not restricted to use any information relating to Ruchika Flavours Limited.
- b) It is not a case of insider trading since the information disclosed by both the CAs of statutory audit team is not a price-sensitive information.
- c) It is a case of insider trading and the penalty leviable would be not less than Rs. 10 lacs but may extend to Rs. 25 crores or 3x of profits made out of insider trading, whichever is higher.
- d) It is a case of insider trading and therefore, the penalty leviable would be not less than Rs. 25 crores or three times of profits made out of insider trading, whichever is lower.

**Question: 2 [Regulation 29 -SEBI (LODR) Reg,2015]**

Akshara Builders and Developers Ltd., a company listed on BSE Limited, is contemplating upper revision in the rate of interest of its existing 12% bonds by 1% so as to make them 13% bonds with effect from August 14, 2021. The said proposal is to be laid before the Board of Directors at a Board Meeting to be held on July 14, 2021. From the following options, choose the one which correctly indicates the latest date by which Akshara Builders and Developers Ltd. is required to intimate the BSE Limited about the Board Meeting where increase in rate of interest is being considered, keeping in view the Regulation 29 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Akshara Builders and Developers Ltd. is required to intimate BSE Limited about the Board Meeting, where increase in rate of interest is being considered, latest by:

- a) July 1, 2021
- b) July 3, 2021
- c) July 5, 2021
- d) July 7, 2021.

**Answers:**

1.

(c)

2.

(b)

**Question:3 [Regulation 33(3) -SEBI (LODR) Reg,2015]**

W Ltd. made the following compliances for the June 2022 quarter, as required by SEBI(LODR) Regulations, 2015 :-

- 1) It submitted its unaudited quarterly financial statements to the recognised stock exchange on 31st July, 2022.
- 2) It submitted its quarterly compliance report on corporate governance on 10th July, 2022.

What shall be the last date of submission of quarterly financial statements to the stock exchange for W Ltd., in case W Ltd. was not able to submit the same on 31st July, 2022, and whether it can be submitted in unaudited form also?

- a) 15th August, 2022 and no, it needs to be submitted in audited form.
- b) 31st August, 2022 and yes, it can be submitted in unaudited form.
- c) 31st July, 2022 and no, it needs to be submitted in audited form.
- d) 15th August, 2022 and yes, it can be submitted in unaudited form.

**Question:4 [Regulation 17A -SEBI (LODR) Reg,2015]**

Mr. Amar is holding the post of directorship in following Listed entities- LE 1, LE 2, LE 3, LE 4, LE 5 LE 6, and LE 7 as on January 2020. He received an offer of directorship from LE 8 in April 2020. Whether Amar can join the LE 8?

- a) Yes, as per the SEBI(LODR)Regulation, directorship is restricted to 8 listed entities. Hence Mr. Amar can.
- b) Yes, as per the SEBI(LODR)Regulation read with the companies Act, 2013, Mr. Amar can accept directorship in 10 listed companies.
- c) No, as per the SEBI(LODR)Regulation, directorship cannot be in more than seven listed entities with effect from April 1, 2020, Mr. Amar cannot.
- d) Yes, as no restriction is marked on holding of directorship in the Listed companies.

**Question:5 [Section 3 -SEBI (SAST) Reg,2011]**

As per SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, no acquirer shall acquire shares or voting rights in a target company which taken together with shares or voting rights, if any, held by him and by persons acting in concert with him in such target company, entitle them to exercise _____ of the voting rights in such target company unless the acquirer makes a public announcement of an open offer for acquiring shares of such target company:

- a) Ten percent or more
- b) Twenty per cent or more
- c) Twenty-five per cent or more
- d) Fifty per cent or more



Answers:	3.	(d)	4.	(c)	5.	(c)
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**Question:6 [SEBI(LODR) regulations, 2015]**

X Limited is a listed company which provided the grievance position of the investors' complaints for the financial year 2022-2023.

Referring to the applicable Regulation made under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, state within how many days X Limited is required to file a statement giving the status relating to Quarter 4 of the financial year 2022-2023 as to the investors complaints-

- a) It has to file the detailed status as to the investors complaints, by 30th day of April, 2023.
- b) It has to file the detailed status as to the investors complaints for the financial year 2022-2023 within 3 months from the end of the financial year.
- c) It has to file the detailed status as to the investors complaints relating to the each Quarter of the financial year 2022-2023 within 15th day of the next quarter, hence for quarter 4 by 15th day of April, 2023.
- d) It has to file the detailed status as to the investors complaints relating to Quarter 4 of the financial year 2022-2023 within 21st day of April, 2023.

**Question:7 [Section 7A]**

Raman is a member and director of a pharmaceutical company. The company proposed to raise capital for strengthening its structure and reputation in the market. Such matter came for approval before Board for consideration. Specify the correct statement in the light of the above situation as per the provision under the SEBI Act, 1992

- a) Member shall participate in the meeting of the Board to protect its interest in the Company.
- b) Member shall not participate in the meeting of the Board being interested party.
- c) Member, shall only participate in the meeting of the Board being interested party, after disclosure of his interest
- d) Member being a director with pecuniary interest, shall disclose his interest but shall not take any part in any decision of the Board.



Answers:	6.	(d)	7.	(d)
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❧ The End ❧