



PR No.24/2021

SEBI Board Meeting

The SEBI Board met in Mumbai today under the chairmanship of Shri Ajay Tyagi. The Part-Time Members joined the meeting through video conferencing. The Board, inter-alia, took the following decisions:

I. **New SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021**

The Board approved the merger of SEBI (Issue of Sweat Equity) Regulations, 2002 ("Sweat Equity Regulations") and SEBI (Share Based Employee Benefits) Regulations, 2014 ("SBEB Regulations") into a single regulation called the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

While approving the said merger, the Board also agreed to certain amendments to existing provisions. Some of the key proposals approved by the Board are as follows:

1. The companies will be allowed to provide share based employee benefits to employees, who are exclusively working for such company or any of its group companies including its subsidiary or its associate.
2. The companies will have flexibility in switching the administration of their schemes from the trust route to the direct route and vice versa with the approval of the shareholders, subject to the condition that the switch is not prejudicial to the interest of the employees.
3. The time period for appropriating the unappropriated inventory of the trust has been extended from existing 1 year to 2 years subject to the approval of the Compensation/Nomination and Remuneration Committee for such extension.

4. It has been decided to dispense with the minimum vesting period and lock-in period for all share benefit schemes in the event of death or permanent incapacity (as defined by the company) of an employee.
5. Maximum yearly limit of sweat equity shares that can be issued by a company listed on the main board has been prescribed at 15% of the existing paid up equity share capital within the overall limit not exceeding 25% of the paid-up capital at any time. Further, in case of companies listed on the Innovators Growth Platform (“IGP”), the yearly limit will be 15% and overall limit shall be 50% of the paid-up capital at any time. This enhanced overall limit for IGP shall be applicable for 10 years from the date of company’s incorporation.

II. Review of regulatory framework for promoter, promoter group and group companies

1. The Board decided to relax the lock-in requirements as follows:
 - i. The lock-in of promoters shareholding to the extent of minimum promoters contribution (i.e. 20% of post issue capital) shall be for a period of eighteen months from the date of allotment in initial public offering (IPO)/further public offering (FPO) instead of existing three years, in the following cases:
 - a) If the object of the issue involves only offer for sale
 - b) If the object of the issue involves only raising of funds for other than for capital expenditure for a project (more than 50% of the fresh issue size)
 - c) In case of combined offering (Fresh Issue + offer for sale), the object of the issue involves financing for other than capital expenditure for a project (more than 50% of the issue size excluding OFS portion)Further, in all the above mentioned cases, the promoter shareholding in excess of minimum promoter contribution shall be locked-in for a period of six months instead of existing one year.
 - ii. The lock-in of pre-IPO securities held by persons other than promoters shall be locked-in for a period of 6 months from the date of allotment in IPO instead of existing 1 year. The period of holding of equity shares for Venture Capital Fund or Alternative Investment Fund (AIF) of category

I or Category II or a Foreign Venture Capital Investor shall be reduced to 6 months from the date of their acquisition of such equity shares instead of existing 1 year.

A SEBI consultation paper dated May 11, 2021 had provided detailed rationale for the reduction in lock-in period such as demonstration of skin in the game by promoters, existence of private equity firms and AIFs several years before proposing listing, much less greenfield financing through IPOs, etc.

2. The Board further decided to approve the following measures to reduce the disclosure requirements at the time of IPO:
 - i. The definition of promoter group shall be rationalized, in case where the promoter of the issuer company is corporate body, to exclude companies having common financial investors.
 - ii. The disclosure requirements in the offer documents, in respect of Group Companies of the issuer company, shall be rationalized to, inter-alia, exclude disclosure of financials of top 5 listed/unlisted group companies. These disclosures will continue to be made available on the website of the group companies.

3. The Board also agreed in-principle to the proposal for shifting from the concept of promoter to 'person in control' or 'controlling shareholders' in a smooth, progressive and holistic manner. To this effect, the Board, advised SEBI to:
 - a) engage with other regulators to ascertain and resolve regulatory hurdles, if any.
 - b) prepare draft amendments to securities market regulations and analyse impact of the same.
 - c) further deliberate at the PMAC and develop a roadmap for implementation of the proposed transition.

The Board noted that investor landscape is now changing, with private equity and institutional investors holding significant shareholding in listed

companies. In recent years, number of businesses and new age companies with diversified shareholding and professional management that are coming into the listed space are non-family owned and/or do not have a distinctly identifiable promoter group. Further, there is increasing focus on better corporate governance with responsibilities and liabilities shifting to the board of directors and management.

The SEBI consultation paper dated May 11, 2021 captures in detail the drivers for revisiting the concept of promoter.

III. Amendment to SEBI (Alternative Investment Funds) Regulations, 2012

With a view to simplify and rationalise compliance requirements for Alternative Investment Funds (AIFs), provide investment flexibility and streamline regulatory processes, the Board approved certain amendments to SEBI (Alternative Investment Funds) Regulations, 2012, which inter-alia include:

- (i) Category I AIF – Venture Capital Funds (VCFs) to invest at least 75% of investable funds in unlisted equity shares and equity linked instruments of venture capital undertakings or in companies listed or proposed to be listed on a SME exchange or SME segment of an exchange. The existing investment restrictions on the residual portion of investable funds of VCFs have been done away with;
- (ii) The minimum amount of grant of INR 25 Lakhs stipulated for Category I AIFs – Social Venture Funds shall not apply to grants received from Accredited Investors;
- (iii) AIFs can also issue partly paid up units to investors to represent the portion of committed capital invested;
- (iv) AIFs to file private placement memorandum with SEBI through registered Merchant Bankers.

IV. Review of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

The Board considered and approved the proposals relating to review of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 pertaining to issuers who have listed Non-Convertible Debt Securities, Non-Convertible Redeemable Preference Shares, Perpetual Debt Instruments and/ or Perpetual Non-Cumulative Preference Shares.

These amendments aim to improve transparency, rationalization and removing of redundant provisions so as to provide further robustness to the corporate bond market.

V. Facilitating Ease of Doing Business in MIs

The Board deliberated on various existing provisions of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 and SEBI (Depositories and Participants) Regulations, 2018 and approved the following proposals to facilitate ease of doing business in MIs:

- The provision applicable to listed stock exchanges/ depositories with regard to determination of 'fit and proper' status of persons acquiring less than two percent of its shareholding shall also be made applicable to unlisted stock exchanges/ depositories.
- The existing requirement of seeking post-facto approval of SEBI for acquisitions between 2%-5% shareholding shall be discontinued for all eligible shareholders. The stock exchanges, clearing corporations and depositories shall put in place appropriate mechanism to ensure compliance with fit and proper criteria as laid down in Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 and SEBI (Depositories and Participants) Regulations, 2018.

VI. Amendment to SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (“Takeover Regulations”)

The Board has decided to do away with certain disclosure obligations for the acquirers/promoters, etc. pertaining to acquisition or disposal of shares aggregating to 5% and any change of 2% thereafter, annual shareholding disclosures and creation/invocation/release of encumbrance registered in depository systems under Takeover Regulations w.e.f. April 01, 2022.

These relaxations have been done on account of implementation of the System Driven Disclosures (“SDD”). Under SDD, relevant disclosures are disseminated by the stock exchanges based on aggregation of data from the depositories without human intervention. The SDD for the said disclosures is already in place and runs parallel with the submission of physical disclosures under the Takeover Regulations.

The obligation for physical disclosures would be done away with effect from April 01, 2022.

Mumbai

August 06, 2021