



भारतीय प्रतिभूति और विनियम बोर्ड Securities and Exchange Board of India

Consultation Paper

Review of certain aspects of Public issue framework under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018

1. Objective:

The objective of this consultation paper is to seek comments from the public on Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations) relating to framework of initial public offering with respect to the following specific aspects:

- a. Objects of the Issue – where object is to make future acquisition / strategic investment without identifying specific targets
- b. Conditions for Offer for Sale (OFS) by significant shareholders
- c. Lock-in of shares for Anchor Investors
- d. Monitoring of General Corporate Purpose (GCP) amount

These issues were discussed in the meeting of the Primary Market Advisory Committee (PMAC) and it was decided that the recommendations with respect to the above issues be put up on SEBI website for public consultation. The issues and the related proposals are discussed below:-

2. Objects of the issue – where object is to make future acquisition / strategic investment without identifying specific targets

2.1. Current framework, issues and proposals:

In terms of ICDR Regulations, initial public offering can be made by an issuer company:

- For a fresh issue i.e. to raise fresh capital for the objects defined in the offer document, or
- For an offer for sale (OFS) to public i.e. sale of equity by existing shareholders, or
- For a combined issue through fresh issue and OFS.



For fresh issue portion of initial public offering, Issuer Company is required to state the objects of the issue in the offer document.

It is seen that lately in some of the draft offer documents, issuer companies are proposing to raise fresh funds for objects where object is termed as '*Funding of Inorganic Growth Initiatives*', which includes future acquisitions, investing in new business initiatives and strategic partnerships by the company without identifying the target acquisition or specific investments proposed to be deployed out of issue proceeds, at the time of filing offer document.

Mostly, such issuer companies are new age technology companies (NATCs). The rationale for such objects by NATCs is that NATCs are mostly asset-light organizations which may not require funds traditionally required by the companies for objects such as investment for fixed assets / capital expenditure (capex) etc. The growth in such businesses comes from expanding into new micro-markets and adding or acquiring new customers, companies, technology etc. Accordingly, for primary issuance i.e. for funds raised through fresh issues, such new age technology companies disclose objects in their offer documents under such heads as '*Funding of Inorganic Growth Initiatives*', so as to cater to their needs.

However, raising fund for unidentified acquisition leads to some amount of uncertainty / ambiguity in the IPO objects. These uncertainties about the objects of the issue increase further in case a major portion of the fresh issue portion is earmarked for such unidentified acquisition, especially given that issuer companies already have flexibility to earmark up to 25% of the fresh issue size under GCP, under the extant regulations.

Keeping the above in view, it is proposed to prescribe a combined limit of up to 35% of the fresh issue size for deployment on such objects of inorganic growth initiatives and



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GCP, where the intended acquisition / strategic investment is unidentified in the objects of the offer. However such limits shall not apply if the proposed acquisition / strategic investment object has been identified and suitable specific disclosures about such acquisitions / investments are made at the time of filing of offer document.

2.2. Issue for public consultation

- 2.2.1. Is there a need for limiting a specific portion of fresh issue size for objects where companies have not specifically identified their intended acquisition / investment target in the offer document?
- 2.2.2. If so, what should be maximum cap in terms of % of fresh issue for such objects?
- 2.2.3. Whether a combined limit may be placed on such unidentified objects and GCP? If so, what should be this limit as a % of total fresh issue size?

3. Offer for Sale (OFS) by significant shareholders

3.1. Current framework, issues and proposals:

Issuer companies with promoters are required to maintain Minimum Promoter Contribution (MPC), up to at least 20% of post issue capital as MPC which is locked – in for 18 months post listing. MPC is meant principally to ensure a skin in the game for the promoters to inspire confidence while approaching the public shareholder to raise fresh capital.

In terms of ICDR Regulations, for OFS in IPO, selling shareholders can offer equity shares which have been held by them for a period of at least one year prior to the filing of draft offer document. Such selling shareholders (who are not promoters) can divest a part or even their entire investment in the OFS.



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However, in case of IPOs where there is no identifiable promoter, there is no requirement of MPC and lock-in post listing, as there is no promoter. There may therefore be a need to bring some parity to inspire confidence amongst the investors by existing shareholders who are having significant shareholding. This may be especially required for loss making companies coming with IPOs. Significant shareholders may be identified as entities holding >20% of pre-issue capital.

It is proposed that IPOs of companies where there are no identifiable promoters, divestment of stake by significant shareholders (shareholders holding >20%) be capped at say 50% of their pre-issue holding for draft offer documents filed in terms of Regulation 6(2) of ICDR Regulations, 2018. Further, for such significant shareholders who are selling through OFS in IPO, their remaining post issue shareholding can be locked-in for a period of 6 months from the date of allotment in IPO (this may also be applicable even if significant shareholders are of VCF, AIF – Cat I and II & FVCI, category).

3.2. Issue for public consultation

- 3.2.1. Whether there is a need for capping OFS in IPO by significant shareholders in IPOs where there is no identifiable promoter and therefore no MPC?
- 3.2.2. If so, whether such capping should only be for loss making companies [for filing under Reg. 6(2)] or for all companies?
- 3.2.3. What should be the capping on OFS by such shareholders in terms of % of their pre-issue holding?
- 3.2.4. Whether there should be post issue lock-in of 6 months for significant shareholders (irrespective of category of investors)?



4. Lock-in for Anchor Investors

4.1. Current framework, issues and proposals:

In terms of provisions of ICDR regulations, Issuer Company can allocate 60% of the QIB portion to anchor investors on discretionary basis, out of which 1/3rd is reserved for mutual funds.

The allotment to anchor investors is done one day prior to issue opening date and the shares are locked-in for a period of 30 days from the date of allotment

The concept of anchor investors was introduced to inspire confidence in the issue especially when such investors commit moneys upfront and thus provide an indication of price as well as improve the price discovery during IPO. Other investors may take cue based on the investment decisions of anchor investors.

Presently, the shares allotted to Anchor Investors are locked in for a period 30 days from the date of allotment. It is felt that a longer lock-in for Anchor Investors will provide more confidence to other investors. Therefore, there may be a need to review the period of lock-in for anchor investors.

PMAC was of the view that instead of increasing lock-in period for all Anchor Investors from 30 days, not less than 50% of the Anchor Book shall be given to those Anchor Investors who may be agreeable with 90 days or longer lock-in.

4.2. Issue for public consultation

4.2.1. Whether there is a need for increase in lock-in period for Anchor Investors? If so, what should be the lock-in period for Anchor Investors?

Or



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4.2.2. Instead of increasing lock-in period for all Anchor Investors, whether there should be a reservation for Anchor Investors who are agreeable to higher lock-in period, say 90 days or more? How much portion of Anchor Book should be reserved for Anchor Investors who are agreeable to higher lock-in period?

5. Monitoring of General Corporate Purpose amount

5.1. Current framework, issues and proposals:

Issuer Companies are permitted to specify certain portion of the fresh issue portion as general corporate purpose (GCP) which cannot exceed 25% of the fresh issue. Regulation 2 (1) (r) of ICDR Regulations defines GCP as:

“general corporate purposes” include such identified purposes for which no specific amount is allocated or any amount so specified towards general corporate purpose or any such purpose by whatever name called, in the draft offer document, draft letter of offer, or the offer document:

Provided that any issue related expenses shall not be considered as a part of general corporate purpose merely because no specific amount has been allocated for such expenses in the draft offer document, draft letter of offer or the offer document;

In terms of Regulation 7(2) of ICDR Regulations, the amount for GCP, as mentioned in objects of the issue in the draft offer document and the offer document shall not exceed 25% of the amount being raised by the issuer and in terms of Regulation 41(2) of ICDR Regulations, proceeds raised for GCP, are not required to be monitored by Monitoring Agency.

It is seen that issuer companies are coming up with issues which are very large in size. Thus, with larger issue size, GCP amount also becomes very substantial in terms of



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absolute numbers. For e.g. in a Rs. 10,000 crore fresh issue, Issuer Company can have Rs. 2,500 crore earmarked under GCP.

Also, as per present requirements under ICDR Regulations, issuer companies are not required to disclose any specific object regarding deployment of GCP amount and also usage of GCP amount is not covered in the monitoring agency report. Given the large size of IPOs, there is a need to provide adequate information about the utilisation and monitoring of such a large portion of issue proceeds, earmarked under GCP.

It is proposed that the issue proceeds earmarked under GCP may also be brought under monitoring. The utilization of GCP amount by the issuer company may need to be disclosed in the quarterly Monitoring Agency report.

5.2. Issue for public consultation

5.2.1. Whether there is a need for monitoring of GCP and continual disclosures of the utilisation of the funds so raised?

6. Public Comments

As mentioned earlier the aforementioned aspects of current regulatory framework for IPOs and issues emerging out of the recent spate of IPOs were considered by the PMAC, and given that any change in aforementioned framework may have a wide ranging implications on issuer companies, investors, other market participants and stakeholders, PMAC would consider the public comments received in respect of these proposals as made out at paras 2.2, 3.2, 4.2, and 5.2 above. Comments may be sent by email or through post, in the following format:

Name of entity / person : Contact Number & Email Address :



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Sr. No.	Reference Para of the consultation paper	Suggestion/ Comments

While sending email, kindly mention the subject as “**Review of certain aspects of public issue framework**”

The comments may be sent by email to consultationcfd@sebi.gov.in latest by November 30, 2021. Comments can also be sent through post (latest by November 30, 2021) to the following address:

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