



SEBI Board Meeting

The SEBI Board met in New Delhi today and took the following decisions:

I. Reforms in the Primary Market

The Board undertook a review of the extant regulatory framework in the primary market and approved certain reforms to revitalize the market, details of which are as under:-

(1) Revisiting the minimum offer to public norm under Rule 19 (2) (b) of Securities Contracts (Regulation) Rules, 1957 (“SCRR”)

In order to make regulatory requirements consistent across the companies irrespective of post issue capitalisation and to facilitate mid size issuers who may not be in need of large funds, SEBI has decided to take up the following proposal with Ministry of Finance to carry out suitable amendments to SCRR

(i) Minimum dilution to public in an IPO shall be 25% or Rs. 400 crore, whichever is lower, for companies with post capitalisation of less than Rs. 4000 crore. This will remove the anomaly that a company just short of Rs. 4000 crore market capitalisation, was required to dilute about Rs. 1000 crore while another company at Rs. 4000 crore market capitalisation was required to dilute only Rs. 400 crore.

(ii) In case of dilution of less than 25%, minimum public shareholding of 25% to be achieved within three years of listing, where required under the rules.

(2) Minimum public shareholding for Public Sector Undertakings (“PSUs”) under Securities Contracts (Regulation) Rules, 1957

(i) SEBI believes that rules for the market should be uniform across all the companies and should be promoter neutral.

(ii) Under the current rule, while non-PSUs are required to have minimum 25% public shareholding, PSUs are required to have only 10%, which is discriminatory and inconsistent with the broader market design.

(iii) Therefore, SEBI has decided to recommend to Ministry of Finance that SCRR should be amended so that all the listed companies including PSUs shall be required to achieve and maintain minimum public shareholding of 25% of the total number of issued shares, within a time period of three years.

(3) Increasing the investment bucket for anchor investor

In order to increase the share of serious, committed investors, SEBI has decided to increase the anchor investor’s bucket to 60% from the current requirement of 30% of the institutional bucket.

(4) Eligibility of shares for Offer for Sale in an IPO with respect to bonus issues on shares held for more than a year

The Board approved the proposal to permit bonus shares issued in last one year prior to filing of the draft offer document to be offered for sale, provided that these bonus shares were issued out of the free reserves or share premium.

(5) Amendments to regulations governing the preferential issue norms

In order to bring consistency between various regulations and to clarify certain regulations governing the preferential issue norms, the following has been approved:

- (i) Replace 'closing price' with 'volume weighted average price' in the pricing formula for preferential issues
- (ii) The regulations concerning pricing of QIPs take into account the effect of stock split, bonus, etc. However, this has not been explicitly provided for in the regulations concerning preferential issues. SEBI has decided to extend the same treatment to preferential issues also.
- (iii) The regulations concerning preferential issues do not provide specifically for pricing of infrequently traded shares. However, SEBI (SAST) Regulations explicitly specifies the pricing methodology in case of infrequently traded shares. It has been decided to extend similar treatment to preferential issues also.

II. Review of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999

(1) The Board approved the proposals to review the existing regulatory framework on Employee Stock Option Scheme (ESOS) and Employee Stock Purchase Scheme (ESPS) for listed entities and frame regulations for employee benefit schemes involving shares of the company, replacing the existing SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

(2) The proposed regulations intend to address issues regarding composition of Trusts, facilitate secondary market acquisitions, enhanced disclosures and better enforceability. The regulations cover employee benefit schemes which deal in shares of the company, in addition to ESOS and ESPS. Such schemes would also be permitted to acquire shares from secondary market under certain conditions so as to avoid forced dilution of capital and to be in line with international practice. Certain safeguards as outlined below have been put in place to improve governance and transparency of the schemes and also address concerns regarding potential market abuse:

- (i) Requirement of shareholders' approval through special resolution for undertaking secondary market acquisitions,
- (ii) Certain limits on secondary market acquisitions,
- (iii) A limit of 10% of the assets held by general employee benefit schemes other than ESOS type of schemes on owning shares of the company / listed holding company,
- (iv) Trusts shall undertake only delivery based transactions and not deal in derivatives,
- (v) Restrictions on sale of shares by the Trusts,
- (vi) At least six month holding period for shares acquired from secondary market,

(vii) Classifying shareholding of such Trusts separately from 'promoter' and 'public' category,

(viii) Stricter disclosure and other regulatory obligations.

(3) To ensure a smooth transition for complying with the new regulatory framework, the existing employee benefit schemes have been provided with a time period of one year from the date of notification.

Further, a longer transition period of five years has been provided for the following:

(i) Re-classifying shareholding of existing employee benefit schemes separately from 'promoter' and 'public' category.

(ii) Bringing down the level of shares acquired from secondary market within the permissible limits.

(iii) Reducing own share component to 10% of the total assets of general employee benefit schemes.

III. Manner of Dealing with the Qualified Audit Reports filed by Listed Companies – Status

Pursuant to SEBI Circular No. CIR/DIL/7/2012 dated August 13, 2012, SEBI has constituted Qualified Audit Report Review Committee (QARC) to deal with the Qualified Audit Reports filed by the Listed Companies. QARC has dealt with all the qualified audit reports submitted to the stock exchanges from January 01, 2013 to December 31, 2013 after preliminary scrutiny by the stock exchanges. The Board took note of the performance of QARC, which is summarised as under:

Particulars	No. of Qualifications
No. of audit qualifications dealt by QARC	713
No. of audit qualifications where rectification/restatement not required	130
No. of audit qualifications referred for rectification	397
No. of audit qualifications referred to Financial Reporting Review Board - ICAI (FRRB) for its opinion on restatement	186

IV. Expanding the framework of Offer for Sale (OFS) of shares through stock exchange mechanism

In order to encourage retail participation in OFS, to enable all large shareholders including non-promoter shareholders to use the OFS mechanism and also to expand the universe of companies to whom OFS mechanism is available, presently being 100 top companies only, the Board has approved the following modifications to the existing OFS mechanism:

(1) Reservation for retail individual investors

(i) Minimum 10% of the issue size shall be reserved for retail investors i.e. for the investors bidding for amounts less than Rs. two lakhs. In case this percentage is not fully utilized, the unutilized portion may be offered to other investors.

(ii) Seller of shares may offer a discount to retail investors in accordance with the framework specified from time to time.

(2) Allowing non-promoter shareholders to offer shares through OFS

Non-promoter shareholders having (shareholding) more than 10% or such percentage as specified by SEBI from time to time shall be eligible to use OFS.

(3) Expanding the list of eligible companies

OFS mechanism shall be made available for shareholders of top 200 companies by market capitalization.

V. Common KYC in Financial Sector

The centralized KYC system introduced by SEBI has evolved and stabilized with data of about 1.95 crore KYCs of investors. The client who has already done the KYC with any SEBI registered intermediary need not undergo the same process again when he approaches another intermediary. The system has benefited the investors.

Currently, the facility of sharing of KYC information is available only among SEBI registered intermediaries. Board has now approved the amendment to **SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011** for sharing of KYC information available on the centralised system with the entities regulated by other financial sector regulators. This would further facilitate the KYC process for the investors in the entire financial sector. This will not only reduce the paper-work and bring down cost of operations for the investors as well as for the intermediaries, but will also save the investors from the hassle of getting KYC done again by the intermediaries regulated by other financial sector regulators.

VI. SEBI (Research Analyst) Regulations, 2014

(1) The Board considered and approved the draft SEBI (Research Analyst) Regulations, 2014.

(2) The SEBI (Research Analyst) Regulations, 2014 have been framed based on consultation with market participants and comments received from the public on the consultation paper and draft regulations for research analysts disseminated for this purpose.

(3) The salient features of the SEBI (Research Analyst) Regulations, 2014 are as under:

(i) The Regulations seek to register and regulate individual research analysts and entities engaged in issuance of research reports or research analyses and/or publication of substance of research report or who provides research report or who makes 'buy/sell/hold' recommendation of a security or who make recommendation on public offers such as Brokerage houses, merchant bankers, proxy advisors etc.

(ii) Investment Advisers, Credit Rating Agencies, Portfolio Managers, Asset Management Companies, fund managers of Alternative Investment Funds or Venture Capital Funds shall not be required to be registered under these regulations.

(iii) Internal communications that are not given to current or prospective clients and periodic reports or other communications prepared for unit holders of Mutual Fund or Alternative Investment Fund or clients of Portfolio Managers and Investment Advisers are not included in the definition of research report.

(iv) Requirements relating to experience, qualification, certification and capital adequacy have been prescribed in the regulations for an individual person or an entity to act as research analyst.

(vi) The regulations specify requirements to foster objectivity and transparency in research and provide investors with more reliable and useful information to make informed decisions.

- (vii) Requirements in relation to establishing, maintaining written internal policies and control procedures governing the dealing and trading by any research analyst have been prescribed in the regulations.
- (viii) Limitations on trading by research analysts have been prescribed in the regulations.
- (ix) Requirements in relation to compensation of research analysts have been prescribed in the regulations.
- (x) Limitations on publication of research reports and restrictions on public appearances have been prescribed in the regulations.
- (xi) The regulations specify that the research report prepared shall have complete disclosures in respect of financial interest, receipt of compensation, etc. so that investors can understand the actual or potential conflicts of interest and their likely impact on the quality of the research report published.
- (xii) The regulations specify provisions in relation to disclosures to be made in research reports and disclosures to be made during the public appearance.
- (xiii) The regulations specify restrictions on trading and on compensation of the persons who make comments or recommendations concerning securities or public offer through public media.
- (xiv) The regulations specify provisions for code of conduct, general responsibility, maintenance of records, etc.
- (xv) These regulations shall come into force on the ninetieth day from the date of their publication in the Official Gazette.

VII. SEBI Annual Report : 2013-14

The Board considered and approved the SEBI Annual Report: 2013-14. In compliance with Section 18(2) of SEBI Act, 1992, the same Annual Report would be submitted to the Central Government.

Mumbai

June 19, 2014
