

SEBI embarks on next generation reforms in the capital markets

At its board meeting on August 06, 2021, SEBI has approved certain long term transformational changes in respect of promoter, promoter group and group companies. It is indeed remarkable that the regulator in these tough times is not just focused on business-as-usual but is also exhibiting resilience by working on progressive issues with long-term positive implications. A couple of weeks ago, at the FICCI annual capital markets conference - CAPAM, the Chairman SEBI had indicated that SEBI was working on these issues.

In my view, SEBI board has rolled out two very significant changes – first, the reduction in lock-in periods for minimum promoters’ contribution and for other shareholders for a public issue; second, shifting from the concept of ‘promoter’ to the concept of ‘person in control’.

Promoter shareholding Lock-in conditions

At present, SEBI prescribes a minimum promoters’ contribution of 20% to be locked-in for a period of three years from listing. Additionally, any other pre-IPO capital is required to be locked-in for one year, except for some exempt categories.

The logic behind the lock-in requirement was to restrict the controlling shareholders from disposing of their holding after listing of the company, to ensure they have a ‘skin in the game’, and to make them take responsibility to deliver on the promises made in the offering circular. In fact, in my view, the origin of this thought goes back to the control environment pre-1991 when industries were being set up based on special permissions. In those days, the license conditions used to prescribe a minimum equity contribution by the promoter which was locked up until the lender’s money was paid off. A similar thought found resonance in the capital markets regulations and a minimum of 20% equity contribution from promoters was made compulsory with a lock-in period.

SEBI board has now approved to reduce lock-in period on the 20% minimum promoter shareholding to 18 months and on other pre-IPO shares to six months, except in situations of project financing. This reduced lock-in period is a welcome first step. This regulation certainly required a rethink, and I am glad that SEBI Board has approved this change.

Shift from ‘Promoter’ to ‘Person in control’

The SEBI board has agreed in-principle to the proposal of shifting from the concept of ‘Promoter’ to ‘Person in control’ or ‘controlling shareholders’ in a smooth, progressive and holistic manner. Since this change involves multiple regulations and regulators, the SEBI Board has advised SEBI to:

1. engage with other regulators to ascertain and resolve regulatory hurdles, if any
2. prepare draft amendments to securities market regulations and analyse impact of the same
3. further deliberate at the PMAC and develop a roadmap for implementation of the proposed transition

Apart from the path breaking proposal, I think the manner in which this is done by the SEBI Board is very interesting. Normally, the regulator would wait for the complete clarity to emerge on a subject before approving that. This time SEBI Board has pro-actively given an in-principle approval to the proposal. This is a new beginning and a welcome step.

Our Views

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Given the pace at which the nature of businesses and business ownership in India is changing, regulations must match the stride. Today, the concept of a promoter is blurred. Several Indian companies are now owned by financial investors rather than by a controlling family. Some businesses are owned by a group of professional investors. In such circumstances, there is no identifiable promoter, and the company is largely board controlled. Most banks, some other large financial institutions and several corporates are examples of board-controlled companies. Recognizing the evolved business scenarios, SEBI Board is proposing just that – to shift from ‘Promoter’ to ‘Person in control’

The proposed changes will facilitate more board control companies to tap the Indian capital markets. This will eventually add further depth to the market and bring it at par with the global markets. Both these steps are in the right direction and would take us closer to the global standards.

<https://economictimes.indiatimes.com/markets/stocks/news/sebi-ushers-in-next-generation-reforms-in-capital-markets-promoter-definition/articleshow/85126699.cms>

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