

Review of SME framework under SEBI (ICDR) Regulations, 2018, and applicability of corporate governance provisions under SEBI (LODR) Regulations, 2015 on SME companies.

The decision of the Board to modify a few proposals and delete certain proposals currently on account of the fact that these are small companies, with the rationale/remark are given in **Annexure A**. The remaining proposals as mentioned in the memorandum were approved by the Board.

Annexure A

Proposals not approved

S/ No	Proposal	Reference para in Board Memorandum	Decision	Remarks
1	Proposal for appointment of Monitoring Agency in SME IPO irrespective of the issue size, if the object of the issue is to fund subsidiary, repay subsidiary borrowing, investment in joint venture/subsidiary or acquisition.	Para 3.2.5. (c) (ii)	Not approved	It will be covered under the proposal to mandate Monitoring Agency for issue size > Rs.50 crore. No separate proposal may be needed currently, for issuer with issue size less than Rs. 50 crore, in view of the cost benefit view for small issuers.
2	Lock-in period on minimum promoter contribution (MPC) in SME IPOs to be increased to 5 years.	Para 3.2.6. (c) (i)	Not approved	It was discussed that the 5 year lock-in period requirement was on the higher side and existing requirement of 3 year lock-in period may be retained.
3	Raising funds for any unidentified target / acquisition may not be permitted for SME issue.	Para 3.2.7. (c) (ii)	Not approved	As fund raising for unidentified acquisition is available for main board IPOs, same may be retained for SME IPOs.
4	Issuer may not be eligible for IPO if any of its	Para 3.2.8. A(c)	Not approved	Keeping in mind that for main board IPOs such

S/ No	Proposal	Reference para in Board Memorandum	Decision	Remarks
	Promoter Group member is a promoter or director of any other company which is debarred from accessing the capital market, or is a wilful defaulter / fraudulent borrower / fugitive economic offender.			a condition is not there, it may not be currently introduced for SME IPOs, in view of the cost benefit view on the same, for small issuers.
5	An issuer may make SME IPO, only if the issue size is more than Rupees 10 crore.	Para 3.2.9. (b) (iii)	Not approved	The proposed condition is restrictive for smaller issuers, therefore, it may not be imposed for SME IPOs
6	An issuer may make an initial public offer, only if the face value of the shares of issuer is Rupees ten, for issued shares and proposed new shares to be issued & listed through initial public offer.	Para 3.2.9. (b) (v)	Not approved	Since such condition is not there for main board IPOs, it may not be introduced for SME IPOs. Mis-selling risk may be addressed as part of suitable disclosure in Exchange SOP.
7	Disclosure of details of Head of departments and their relevant experience.	Para 3.2.12. (b) (i)	Not approved	The requirement for such disclosures is not there in main board IPOs, hence in SME IPOs also such disclosures may not be mandated. Risk of shell companies may be addressed as part of Exchange SOP.
8	The requirement to disclose the composition and details of meetings of Board of Directors and its committees on a quarterly basis may be extended to SME listed entities.	Para 4.2.2(c)	Not approved	The proposed disclosure requirement would increase compliance requirements on the SME listed entities.

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9	SME listed entities may be required to submit shareholding pattern, statement of deviation(s) or variation(s) and financial results on a quarterly basis from the existing requirement of half-yearly basis.	Para 4.2.3(c)	Not approved	Increasing the frequency of disclosure from half-yearly to quarterly would increase compliance requirements on the SME listed entities. However, system driven disclosure of shareholding pattern may be approved, as it does not involve additional requirement on the companies.

Proposals approved with modification

S/ No	Proposal	Reference para in Board Memorandum	Decision	Rationale
1	Shares offered for sale to the public by selling shareholder(s) shall not exceed 20% of their pre-issue shareholding	Para 3.2.4. (c) (ii)	Proposal was approved with decision to relax the requirement in the proposal. It was decided that 20% limit on shares offered for sale to the public by selling shareholder(s) as % of their pre-issue shareholding to be increased to 50%.	Imposing a limit of 20% on selling shareholder(s) is fairly restrictive and they may be allowed to sell upto 50% of their pre-issue shareholding.
2	Threshold requirement for appointment of	Para 3.2.5. (c) (i)	Proposal was approved with decision to relax the requirement in	As the proposal will have cost implication for

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	Monitoring Agency shall be made applicable for SME Company if fresh issue size exceeds Rs.20 crore		proposal. It was decided that threshold for requirement of appointing monitoring agency to be made applicable for SME Company if fresh issue size exceeds Rs.50 crore.	issuer, it may be mandates only for issues where fresh issue size exceeds Rs.50 crore.
3	GCP amount in SME IPO shall be capped to 10% of amount being raised by the issuer or Rs.10 crore, whichever is lower.	Para 3.2.7. (c) (i)	Proposal was approved with decision to relax the requirement in proposal. It was decided that GCP to be capped to 15% of amount being raised or Rs.10 crore, whichever is lower.	A limit of 10% on GCP is too strict for issuer. GCP upto 15% of amount being raised or Rs.10 crore, whichever is lower, may be allowed.
4	In case of an issuer, which had been a proprietorship or a partnership firm or a limited liability partnership before conversion to a company, issuer may make IPO only if the issuer company has been in existence for at least two full financial years before filing DRHP.	Para 3.2.9. (b) (i)	Proposal was approved with decision to relax the requirement in proposal. It was decided that cooling off period to be reduced to 1 year from proposed 2 year cooling off period.	A 2 year cooling off period is stringent for a small issuer company.
5	In case of an issuer, where there is a complete change of	Para 3.2.9. (b) (ii)	Proposal was approved with decision to relax the requirement in	A 2 year cooling off period is fairly stringent for a small

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	promoter(s) or new promoter(s) have come after acquisition of more than 50% shareholding before filing of DRHP, then in such cases issuer may make IPO only after completing a period of two years from the date of change of promoter(s) before filing DRHP		proposal. It was decided that cooling off period to be reduced to 1 year from proposed 2 year cooling off period.	issuer company.
6	An issuer may make an initial public offer, only if the issuer has operating profit (earnings before interest, depreciation and tax) of Rupees 3 crore from operations for any 2 out of 3 financial years preceding the application	Para 3.2.9. (b) (iv)	Proposal was approved with decision to relax the requirement in proposal. It was decided that threshold for operating profit (earnings before interest, depreciation and tax) of Rs.3 crore from operations for any 2 out of 3 financial years, may be reduced to Rs.1 crore.	Requirement to have operating profit of Rs.3 crore may be considered stringent for small companies and it may be difficult for smaller companies to achieve. Therefore, requirement may be reduced to Rs.1 crore.
7	Disclosures providing details in respect of Employees' Provident Fund and Employees State Insurance Corporation (number of employees, amount paid, delay in payment of due for past three years etc.)	Para 3.2.12. (b) (ii)	Proposal was approved with decision to relax the requirement in proposal. It was decided that disclosure may be prescribed only for details related to number of employees, amount paid and not for	The proposed disclosure requirement would increase compliance requirements on small issuers.

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			details related to delay in payment of due for past three years.	
8	The applicability of related party transaction (RPT) norms under Regulation 23 of LODR, as presently applicable to listed entities on Main Board, may be extended to SME listed entities, provided that the materiality threshold may be specified as 10% of annual consolidated turnover instead of lower of 10% of annual consolidated turnover or Rs.1000 crore, whichever is lower, as currently applicable to listed entities on Main Board.	Para 4.2.1(c)	Proposal was approved with modification to the materiality threshold. It was decided that the materiality threshold for SME listed entities may be specified as 10% of annual consolidated turnover or Rs.50 crore, whichever is lower.	The materiality threshold of Rs.1000 crores, which is currently applicable to listed entities on Main Board, is not relevant for SME listed entities which do not enter such high value transactions. However, it is observed that 1 out of 5 SME listed entities have undertaken RPTs of more than Rs.50 crores *. Hence, an absolute materiality threshold as Rs.50 crore may also be specified for SME listed entities.

** Based upon disclosure by top 50 SME listed entities by market capitalization on NSE and BSE in their annual report for FY 2022-23.*