

## **Additional methods for listed entities to achieve minimum public shareholding requirements and amendments to ICDR Regulations for the purpose with respect to Qualified Institutions Placement (QIP)**

### **1. Objective:**

This Memorandum:

- 1.1 Seeks to inform the Board of a proposal permitting two additional methods to achieve minimum public shareholding (MPS) requirements by listed entities; and
- 1.2 Seeks approval of the Board to amend the SEBI (Issue of Capital and Disclosure Requirement) Regulations, 2009 ("ICDR Regulations") in this regard with respect to Qualified Institutions Placement.

### **2. Background:**

- 2.1 Rule 19A of the SCRR stipulates that every listed company shall maintain a public shareholding of at least 25%. Listed public sector companies have been provided additional time till August 21, 2018 to comply with the requirements.
- 2.2 Accordingly, listed entities that have a public shareholding of less than 25% are required to adopt certain specific methods to comply with the MPS requirement as provided in various SEBI circulars, the last of which, superseding all the earlier circulars, was issued on November 30, 2015. The following methods have been provided in the said circular: -

- i. Issuance of shares to public through prospectus;*
- ii. Offer for sale of shares held by promoters to public through prospectus;*
- iii. Sale of shares held by promoters through secondary market in terms of SEBI Circular CIR/MRD/DP/05/2012 dated February 1, 2012;*
- iv. Institutional Placement Programme (IPP) in terms of Chapter VIIIA of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009;*
- v. Rights issue to public shareholders, with promoter/promoter group shareholders forgoing their entitlement to equity shares;*
- vi. Bonus Issues to public shareholders, with promoter/promoter group shareholders forgoing their entitlement to equity shares;*
- vii. Any other method as may be approved by SEBI on a 'case to case' basis.*

**3. Proposal for additional methods proposed of achieving MPS compliance:**

- 3.1 SEBI has been receiving applications from several listed entities seeking relaxation under Method (vii) of the aforesaid Circular for the purpose of complying with Minimum Public Shareholding (MPS) requirement.
- 3.2 Based on representations received on the cost and time associated with the existing methods provided in the circular (on the basis of the exemptions granted so far), it is proposed that certain additional methods be introduced to enable listed entities to comply with the MPS requirement.
- 3.3 After detailed examination, the following two methods have been proposed for complying with MPS requirement:

a. Qualified Institutions Placement (QIP)

- a. QIP offers a quick solution to listed entities enabling them to meet MPS requirements and at the same time also meeting their funding requirements.
- b. QIP as a method ensures wider subscription to the public since the eligible subscribers to a QIP are Qualified Institutional Buyers. Further, as per the ICDR Regulations, a minimum of 10% of eligible securities in a QIP is required to be allotted to mutual funds (which has diversified public holding).
- c. QIP enables public sector banks to meet their capital adequacy norms and MPS requirements at the same time.
- d. Under the 'case to case' basis, SEBI has in the past granted exemptions to several entities, especially public sector banks to raise additional capital by way of a QIP.

b. Sale of shares up to 2% held by promoters/promoter group in open market subject to certain conditions

- a. Sale of a certain small percentage of shares through open market will facilitate quicker and cheaper compliance for listed entities where promoters hold shares marginally above the threshold limit (where

existing methods to sell small shareholding entails heavy cost and effort).

- b. Such sale of shares in open market will also facilitate sick/weak companies, which have thin trading volume and find it difficult to raise fresh funds from the market, to divest their promoter shareholding to achieve MPS requirements.
- c. Under the 'case to case' basis, SEBI has in the past granted exemptions to several entities to dilute promoter shareholding by a small percentage (upto 2%) through open market sale subject to certain conditions.

#### **4. Amendment of ICDR Regulations with respect to QIP:**

- 4.1 With respect to the proposed two new methods as specified above, the method of sale of shares by promoters/promoter group through open market does not require any amendments to SEBI Regulations.
- 4.2 However, with respect to QIP, under Reg 82(c) of ICDR Regulations, a pre-condition for a listed entity to come out with a QIP is compliance with Minimum Public Shareholding requirement specified in the Securities Contracts (Regulation) Rules, 1957. Therefore, for permitting QIP as a method to comply with MPS requirements, amendment of ICDR Regulations is required.
- 4.3 Accordingly, it is proposed that suitable amendments may be made to ICDR Regulations so that QIP may be permitted as a method to comply with MPS requirements. Once necessary amendments are made to the ICDR Regulations, appropriate circular shall be issued permitting the aforesaid two methods for meeting MPS requirements.

#### **5. Cost-benefit analysis of the proposal**

The proposal shall have the following benefits:

- 5.1 The methods proposed will save time, cost and effort for the listed entities to comply with the MPS requirements.
- 5.2 The methods will also provide more flexibility to the listed entities in the methods that they may use to comply with the MPS requirements.

5.3 The number of exemption requests submitted to SEBI on a case-to-case basis will reduce thereby saving time and cost for both listed entities and for SEBI. There are no specific costs associated with the proposal.

## **6. Proposal**

The Board is requested to:

- 6.1 take note of the proposal permitting the aforesaid two methods for complying with minimum public shareholding requirements;
- 6.2 consider and approve the necessary amendments as may be required to ICDR Regulations so that QIP may be permitted as a method to comply with MPS requirements and authorize the Chairman to make the necessary consequential changes to give effect to the decision.