

Amendment to Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 with the objective of mandatory de-materialization of existing securities of select shareholders prior to filing DRHP

1. Objective

1.1. This memorandum seeks the approval of the Board to make amendment to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (hereinafter referred as the “**ICDR Regulations**”) for mandatory de-materialization of existing securities of select shareholders prior to filing DRHP.

2. Background

2.1. Over the last two decades, Securities and Exchange Board of India (SEBI) and the Ministry of Corporate Affairs (MCA) have taken a series of steps to promote the dematerialisation of securities. The rationale behind these measures has consistently been to eliminate the inefficiencies and risks associated with physical share certificates, including loss, theft, forgery, and delays in transfer.

2.2. Despite various regulatory interventions, a good number of physical shares continues to exist, particularly among unlisted entities that are transitioning to listed status. Hence, physical shares of public shareholders of unlisted companies get carried forward and perpetuated into the listed domain, adding to the volume of physical shares in listed domain.

2.3. In accordance with SEBI’s objective to ensure complete dematerialisation of securities, it is necessary to prevent entering of physical securities into listed domain.

2.4. In view of the above, the proposal to amend ICDR Regulations to include certain more classes of shareholders for dematerialisation of existing securities prior to IPO was discussed in the Primary Market Advisory Committee (PMAC).

Based on PMAC recommendation and internal deliberation, it was decided to have public consultation on the proposal to amend provision of ICDR Regulations. Consequently, SEBI issued a consultation paper on April 30, 2025 (“**Consultation Paper**”) seeking views / comments from the public on the proposal to amend, which is annexed as **Annexure I** to this Board Memorandum.

2.5. In response to the aforesaid Consultation Paper, comments/ suggestions were received from 10 commentators and all of them were in favour of the proposal. The summary of comments is placed at **Annexure II**.

2.6. The following paragraphs detail the existing provisions under ICDR Regulations, suggestion and rationale for amendment to existing provisions, analysis of public comments and proposal for the consideration of the Board.

3. Proposals with respect to ICDR Regulations

3.1. Existing Provision:

The following provisions of ICDR Regulations inter-alia specify that, an issuer making an initial public offer shall ensure that:

Regulation 7(1)(c): “All its specified securities held by the promoters are in dematerialized form prior to the filing of the offer document”

Regulation 230 (1)(d): “All specified securities held by the promoters are in the dematerialized form”

3.2. Proposal:

The existing regulatory requirement under regulation 7(1)(c) and 230(1)(d) of the SEBI ICDR Regulations may be expanded to include following class of shareholders:

- a) Promoter Group
- b) Selling Shareholders
- c) Directors
- d) Key Managerial Personnel (KMPs)
- e) Senior Management

- f) Qualified Institutional Buyers (QIBs)
- g) Domestic Current Employees
- h) Shareholders who have special rights
- i) Registered Stock Brokers (RSB)
- j) Non-systemically important Non-Banking Financial Companies (NI-NBFCs)
- k) Any other entities regulated by Financial Sector Regulators

3.3. **Rationale:**

3.3.1. MCA has amended rule 9A and rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014 wherein it has inter-alia mandated the followings:

- (i) Issue securities only in demat mode
- (ii) Facilitating demating of all its existing securities
- (iii) Issue or buyback securities, bonus shares and rights only if the entire holding of its promoters, directors and key managerial personnel (KMP) are held in demat mode.
- (iv) allow subscription to its privately placed, bonus and right issue, only if the subscriber's existing securities all are held in demat mode
- (v) allow transfer of securities only it is held in demat mode

3.3.2. In view of the above, ICDR Regulations may be amended to expand the purview of Regulation 7(1)(c) and Regulation 230(1)(d), so as to bring more class of shareholders under the dematerialisation mode and reduce the volume of physical shares entering the listed domain. While the said proposal will be in congruence with respect to the above mandate of MCA, it will be step forward towards the SEBI's objective of complete dematerialisation of Securities in listed domain along with its benefits.

3.3.3. Dematerialisation of securities has several benefits, which include reduction of frauds and forgery, elimination of loss and damage of securities, faster and more efficient transfers, improved transparency and regulatory oversight, mitigation of legal disputes etc.

3.4. **Summary of Public comment:**

3.4.1. 10 commentators have offered specific comments on the proposal and all commentators are broadly in agreement with the proposal. Further, the analysis of the public comments is placed at **Annexure III**. Few commentators while agreeing with the proposal, gave certain suggestions, which are discussed here in below:

3.4.1.1. Commentator requested clarity on the term “Domestic Current Employees” as used in the consultation paper. In this regard, reference is drawn to the definition of “employee” under Regulation 2(1)(i) of the SEBI (Share Based Employee Benefits and Sweat Equity) (hereinafter referred to as “SBEB”) Regulations, 2021. Accordingly, to ensure alignment and consistency with SBEB, it is proposed to replace the term “Domestic Current Employee” with the word “Employee” in the revised proposal. However, in this case, the definition of “Employee” shall include an employee designated by the company who is exclusively working in India, including the employee of its holding, subsidiary, or associate companies, excluding promoters and directors.

3.4.1.2. A commentator suggested that shareholders holding more than 1% of the company’s share capital in physical form at the time of filing the DRHP be brought within the scope of Regulation 7(1)(c) and 230(1)(d). It may be accepted that the said suggestion is in alignment with the broader objective of MCA and SEBI to promote a consistent policy direction towards complete dematerialisation of securities in the primary market. However, the recent amendments to Rules 9A and 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014 do not specify such requirement under the aforesaid rules. Therefore, in endeavor to bring more number of securities into demat form, it is further proposed that SEBI may also be authorized to include “any other category of shareholders as maybe specified from time to time”. Accordingly, the proposal to mandate

dematerialisation of securities held by certain shareholders is updated to give effect to the said suggestion.

3.4.1.3. One commentator suggested that Financial Sector Regulator (FSR) be defined in the proposed regulation. In this regard, it is submitted that Financial Sector Regulators mean as defined under section 3(18) of the Insolvency and Bankruptcy Code, 2016. Moreover, in order to provide clarity to the Issuer, an explanation regarding FSR is proposed to add to the proposal.

3.5. Proposed amendment to ICDR Regulation:

3.5.1. It is proposed to amend regulation 7(1)(c) and regulation 230(1)(d) of ICDR Regulations to mandate dematerialisation of securities held by the following shareholders of the Issuer before making an initial public offer:-

- a) Promoter Group
- b) Selling Shareholders
- c) Directors
- d) Key Managerial Personnel (KMPs)
- e) Senior Management
- f) Qualified Institutional Buyers (QIBs)
- g) Employees
- h) Shareholders holding SR equity Shares
- i) Stock Brokers
- j) Non Systemically Important NBFCs
- k) All other entities regulated by Financial Sector Regulators
- l) Any other category of shareholders as maybe specified by Board from time to time.

Explanation 1: “Employee” shall mean a person designated as an employee by the issuer, who is exclusively working in India, and employees of its holding, subsidiary or associate company.

Explanation 2: “Financial Sector Regulators” shall mean an authority or body constituted under any law for the time being in force to regulate services or transactions of financial sector and includes the Reserve Bank

of India, the Insurance Regulatory and Development Authority of India, the Pension Fund Regulatory Authority, the International Financial Services Centre Authority, the Insolvency and Bankruptcy Board of India and such other authorities as may be specified by the Board.”.

The proposed amendment to ICDR Regulation for giving effect to the aforesaid proposal is placed at **Annexure IV**.

4. Proposal to the Board:

4.1. The Board is requested to consider and approve following proposals mentioned at paragraph 3.5.1 above that would require amendment to the ICDR Regulation:

4.1.1. To amend provision 7(1)(c) and 230(1)(d) of ICDR Regulations to mandate dematerialisation of securities held by the certain category of shareholders of the Issuer mentioned at 3.5.1 above before making an initial public offer.

4.1.2. To comply with this proposed amendment, a reasonable time shall be provided to the Issuer.

4.2. The amendment to ICDR Regulations placed at **Annexure-IV** may be applicable 30 days from the date of its publication in the Official Gazette.

4.3. The Board is also requested to authorize the Chairperson to take consequential and incidental steps to give effect to the decisions of the Board.

Encl.:

1. Annexure I – Consultation Paper (1 Page)
2. Annexure II – Summary of Public Comments (1 Page)
3. Annexure III – Analysis of Public Comments (4 pages)
4. Annexure IV – Draft amendments to the ICDR Regulations (1 Page)

Addendum: Amendment to Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 with the objective of mandatory de-materialization of existing securities of select shareholders prior to filing DRHP

1. The Board memorandum no.35/2025 includes following proposals:

1.1. It is proposed to amend regulation 7(1)(c) and regulation 230(1)(d) of ICDR Regulations to mandate dematerialisation of securities held by the following shareholders of the Issuer before making an initial public offer:-

- a) Promoter Group
- b) Selling Shareholders
- c) Directors
- d) Key Managerial Personnel (KMPs)
- e) Senior Management
- f) Qualified Institutional Buyers (QIBs)
- g) Employees
- h) Shareholders holding SR equity Shares
- i) Stock Brokers
- j) Non-Systemically Important NBFCs
- k) All other entities regulated by Financial Sector Regulators
- l) Any other category of shareholders as maybe specified by Board from time to time.

Explanation 1: “Employee” shall mean a person designated as an employee by the issuer, who is exclusively working in India, and employees of its holding, subsidiary or associate company.

Explanation 2: “Financial Sector Regulators” shall mean an authority or body constituted under any law for the time being in force to regulate services or transactions of financial sector and includes the Reserve Bank of India, the Insurance Regulatory and Development Authority of India, the Pension Fund Regulatory Authority, the International Financial Services Centre Authority, the Insolvency and Bankruptcy Board of India, and such other authorities as may be specified by the Board.”

- 1.2. Based on internal discussion, it is proposed to streamline the list of proposed list of shareholders by deleting Stock brokers and Non-Systematically Important NBFCs mentioned at point (i) and (j) as these category of shareholders can be covered under category “All other Entities regulated by Financial Sector Regulators” mentioned at point (k). Further the definition of the term “All entities regulated by Financial Sector Regulators” is proposed to be modified to include all such entities in the financial sector that are being regulated by any of the regulator as defined under Financial Sector Regulators. Thus, the proposed “Financial Sector Regulators” definition shall also include Securities and Exchange Board of India (SEBI).
2. In light of the above suggestions, the existing proposal is revised accordingly and the revised proposal is as under:
- 2.1. It is proposed to amend regulation 7(1)(c) and regulation 230(1)(d) of ICDR Regulations to mandate dematerialisation of securities held by the following shareholders of the Issuer before making an initial public offer:-
- a) Promoter Group
 - b) Selling Shareholders
 - c) Directors
 - d) Key Managerial Personnel (KMPs)
 - e) Senior Management
 - f) Qualified Institutional Buyers (QIBs)
 - g) Employees
 - h) Shareholders holding SR equity Shares
 - i) All entities regulated by Financial Sector Regulators
 - j) Any other category of shareholders as maybe specified by Board from time to time.

Explanation 1: “Employee” shall mean a person designated as an employee by the issuer, who is exclusively working in India, and employees of its holding, subsidiary or associate company.

Explanation 2: “Financial Sector Regulators” shall mean an authority or body constituted under any law for the time being in force to regulate services or

transactions of financial sector and includes the Reserve Bank of India, Securities and Exchange Board of India, the Insurance Regulatory and Development Authority of India, the Pension Fund Regulatory Authority, the International Financial Services Centre Authority, the Insolvency and Bankruptcy Board of India, and such other authorities as may be specified by the Board.”.

Annexure I

The consultation Paper is available at the following link:

<https://www.sebi.gov.in/reports-and-statistics/reports/apr-2025/consultation-paper-on-amendment-to-securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-regulations-2018-with-the-objective-of-mandatory-de-materialization-of-existin-93728.html>

Annexure II

This has been excised for reasons of confidentiality.

Analysis of public comments received on the recommendations relating to the ICDR Regulations

1. Mandatory De-materialization of existing securities of select shareholders prior to IPO

1.1. Rationale and Recommendations:

1.1.1. In spite of several regulatory mandates and facilitation mechanisms being in place, there remains a significant volume of holding of physical shares even among critical pre-IPO shareholders such as directors, Key Managerial Personnel (KMPs), senior management, selling shareholders, and even Qualified Institutional Buyers (QIBs). This leaves a regulatory gap that allows a good volume of physical shares to continue existing post-listing.

1.1.2. To address the concerns highlighted above, SEBI issued a consultation paper proposing that the existing regulatory requirement under regulation 7(1)(c) of the SEBI ICDR Regulations be amended to include the following classes of shareholders whose securities are required to be in dematerialised form prior to the filing of the offer document:

- a) Promoter Group
- b) Selling Shareholders
- c) Directors
- d) Key Managerial Personnel (KMPs)
- e) Senior Management
- f) Qualified Institutional Buyers (QIBs)
- g) Domestic Current Employees
- h) Shareholders who have special rights
- i) Registered Stock Brokers
- j) Non-systemically important Non-Banking Financial Companies (NBFCs)
- k) Any other entities regulated by Financial Sector Regulators

1.2. Public comments and analysis:

1.2.1. Analysis of comments / suggestions received on the said proposal are discussed in the following paragraphs.

1.2.2. The statistics on public comments received is tabulated below:

| Total comments | Agree | Partially Agree | Disagree | Strongly Disagree |
|-----------------------|--------------|------------------------|-----------------|--------------------------|
| 10 | 08 | 2 | 0 | 0 |

1.2.3. Few commentators while agreeing with the proposal, submitted following suggestions. The same are addressed as follows:

- a) **Comment:** Few commentators suggested that (i)Registered Stockbrokers (RSB) and non-systemically important Non-Banking Financial Companies (NI-NBFCs) and other regulated entities as identified should be excluded from the coverage of this provision. Further it was mentioned that inclusion of such categories could pose practical challenge particularly in cases involving dissenting shareholders registered stock brokers qualifies institutional buyers etc. Moreover, placing this responsibility solely on the company may lead to delay the IPO process which are outside of the company's control and could adversely affect its market timing and strategic planning. Therefore, SEBI should introduce a provision which mandates to convert their physical holding into demat form within specified timeline. They have also suggested to amend Section 230(1)(d) of SEBI ICDR Regulations to include Small and Medium Enterprises ("SME") within this scope.

SEBI's response: It may be noted that the proposal to amend Regulation 7(1)(c) of the SEBI ICDR Regulations is intended to align with MCA's amended Rules 9A and 9B, and to promote a consistent policy direction towards complete dematerialisation of securities in the primary market. In this regard, it is submitted that Registered Stockbrokers(RSB), and non-systemically important Non-Banking

Financial Companies (NI-NBFCs) being regulated entities are expected to be compliant with regulatory requirements from time to time and hence an issuer may not have difficulty in reaching out to them to get their shares converted to dematerialised form during the pre-IPO stage.

Further, suggestion with respect to regulation 230(1)(d) of SEBI ICDR Regulations, SEBI has considered the submission and revised the existing proposal accordingly.

- b) **Comment:** Few commentators suggested that the current definition of employee is broad encompassing permanent employees of the issuer its promoters and subsidiaries both in India and overseas. They have suggested that a clarification should be provided with respect to the Current Domestic Employee.

SEBI's response: The definition of “employee” as mentioned under regulation 2(1)(i) of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 specifies that:

“employee”, except in relation to issue of sweat equity shares, means,
— (i) an employee as designated by the company ,who is exclusively working in India or outside India; or
(ii) a director of the company, whether a whole time director or not, including a non-executive director who is not a promoter or member of the promoter group, but excluding an independent director; or
(iii) an employee as defined in sub-clauses (i) or (ii),of a group company including subsidiary or its associate company, in India or outside India, or of a holding company of the company, but does not include— (a)an employee who is a promoter or a person belonging to the promoter group; or(b)a director who, either himself or through his relative or through any body corporate, directly or indirectly, holds more than ten per cent of the outstanding equity shares of the company;

In this regard, reference is drawn to the definition of “employee” under Regulation 2(1)(i) of the SEBI (Share Based Employee Benefits and Sweat Equity) (hereinafter referred to as “SBEB”) Regulations, 2021. Accordingly, to ensure alignment and consistency with SBEB, it is proposed to replace the term “Domestic Current Employee” with the word “Employee” in the revised proposal. However in this case, the definition of “Employee” shall include an employee designated by the company who is exclusively working in India, including the employee of its holding, subsidiary, or associate companies, excluding promoters and directors.

- c) **Comment:** One commentators suggested that SEBI should provide clarification with respect “any other regulated entities regulated by financial sector”.

SEBI’s response: It is submitted that Financial Sector Regulators mean as defined under section 3(18) of the Insolvency and Bankruptcy Code, 2016. Moreover, in order to provide clarity to the Issuer, an explanation regarding FSR is proposed to add to the proposal.

- d) **Comment:** Commentator suggested that shareholders holding more than 1% of a company’s share capital in physical form, at the time of filing the DRHP, may also be included in the proposed list under Regulation 7(1)(c) and Regulation 230(1)(d).

SEBI’s response: SEBI has analysed the suggestion and In this regard, it may be noted that the said suggestion is in alignment with the broader objective of MCA and SEBI to promote a consistent policy direction towards complete dematerialisation of securities in the primary market. However, the recent amendments to Rules 9A and 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014 do not specify such requirement under the aforesaid rules. Therefore, the said suggestion may be suitably accepted.

Annexure IV

Amendment to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, shall be notified after following the due process.