

LAW & POLICY UPDATE

CORPORATE & COMMERCIAL



Relaxations in minimum public shareholding

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SEBI issued a circular dated May 14, 2020 (**2020 Circular**) granting relaxation to listed companies from the applicability of 2017 Circular that required recognized stock exchanges to review compliance of listed entities with Minimum Public Shareholding (**MPS**) requirements and introduced *inter alia* the procedure to be followed by stock exchanges/depositories on observance of non-compliance of MPS requirements by listed entities, their promoters and directors. The key aspects are summarized here:

- Issue notices to non-compliant entities intimating all actions taken/to be taken
- Impose a fine of INR 5,000 per day of non-compliance till the date of compliance
- Intimate the depositories to freeze the entire shareholding of the promoter and promoter group in such listed entity till the date of compliance
- Restrict the promoters, promoter group and directors of the non-compliant listed entity from holding any new position as a director in any other listed entity till date of compliance

In case any listed company is non-compliant for more than one year, the stock exchanges shall impose an increased fine of INR 10,000 in addition to the actions set out above. The 2017 Circular also grants stock exchanges the power to consider compulsory delisting of the non-compliant listed entity as per provisions of the Securities Contracts Regulation Act (**SCRA**).

While this compliance is required to be maintained under the SCRA and Securities Contracts Regulation Rules (**SCRR**), it is also required that such compliance is maintained pursuant to provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (**LODR**).

Pursuant to 2020 Circular, stipulations of the 2017 Circular have been relaxed for listed entities that are due to comply with the MPS requirements between March 1, 2020 and August 30, 2020. Further, 2020 Circular also directs the stock exchanges to refrain from taking any penal actions provided in the 2017 Circular and withdraw penal actions, if any, initiated by the stock exchanges from March 1, 2020 till date for non-compliance of MPS requirements by listed entities.

The decision to relax the MPS requirements for listed entities has been taken by SEBI upon requests from several listed companies and industrial bodies citing unfavorable market conditions to conduct sale of shares. These relaxations also provide recourse to listed entities from freezing of excess promoter holding where it has increased beyond 75% because of other acquisitions or offers.

