



7 June 2021

Via email to: [yogitag@sebi.gov.in](mailto:yogitag@sebi.gov.in), [komalb@sebi.gov.in](mailto:komalb@sebi.gov.in)

**Sub: Comments on Consultation Paper on “Review of the regulatory framework of promoter, promoter group and group companies as per Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018”**

At the outset, we, at the Indian Association of Investment Professionals (IAIP), a member society of CFA Institute, appreciate the opportunity to submit our response to the **CONSULTATION PAPER ON “REVIEW OF THE REGULATORY FRAMEWORK OF PROMOTER, PROMOTER GROUP AND GROUP COMPANIES AS PER SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2018”**

IAIP is an association of over 2000 local investment professionals who are CFA charter holders and about 4000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals that promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 164,000 members in over 165 countries. In India, the community of CFA charter holders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

With regards to the abovementioned consultation paper, we would like to propose a few suggestions consistent with our objective to promote fair and transparent global capital markets and to advocate for investor protection.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

Our responses to the proposed initiatives by SEBI are mentioned below:

**A. Details of our Organisation:**

- 1. Name:** Indian Association of Investment Professionals (CFA Society India)
- 2. Contact number:** +91 98196 30042
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**B. Key Contributors:**

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**C. Suggestions / Comments:**

<b>Name of the Entity:</b> Indian Association of Investment Professionals (CFA Society India)			
<b>Sr. No.</b>	<b>Particulars of Proposal</b>	<b>Suggestions</b>	<b>Rationale</b>
1.	<p>Page 2 Para A. a)</p> <p>It is proposed that if the object of the issue involves offer for sale or financing other than for capital expenditure for a project, minimum promoters' contribution (20%) shall be locked-in for a period of one year from the date of allotment in the initial public offer, as opposed to existing requirement of three years.</p> <p>The shares held by Promoter(s) shall be exempt from lock-in requirements after six months from date of allotment in the IPO, only towards the purpose of achieving compliance with minimum public shareholding norms.</p>	<p>We agree with the proposal to reduce the lock-in period for the minimum promoters' contribution from three years to one year.</p> <p>We also support that in case the issue is for a greenfield project (rather than capital expenditure), the minimum lock-in period should be three years. An appropriate definition of what constitutes "greenfield" should be laid out.</p>	<p>The concept of a lock-in is to ensure that the promoter is not a 'fly-by-night' operator and maintains a sufficient 'skin-in-the-game.' A lock-in period of one year from the date of allotment in the initial public offer is a sufficient enough time for any potential pre-issue misdemeanors to come out in public. We also note that APAC jurisdictions such as Singapore and Hong Kong also have similar lock-in periods.</p> <p>As far as issues with capital expenditure as their object are concerned, they should be limited to greenfield projects only where a longer lock-in period of three years will be appropriate.</p>
2.	<p>Page 2 Para A. b)</p> <p>Promoters' holding in excess of minimum promoters' contribution shall be locked in for a period of six months as opposed to the existing requirement of one year from the date of allotment in the Initial Public Offer.</p>	<p>We concur with the proposal to reduce the lock-in period for promoters' holding beyond the minimum promoters' contribution from one year to six months.</p>	<p>As above</p>



<p>3.</p>	<p>Page 2 Para A. c)  The entire pre-issue capital held by persons other than the promoters shall be locked-in for a period of six months from the date of allotment in the initial public offer as opposed to the existing requirement of one year.</p>	<p>We again affirm the proposal to reduce the lock-in period for persons other than the promoters from one year to six months.</p>	<p>As above</p>
<p>4.</p>	<p>Page 4 Para B. a)  It is proposed to do away with the requirement of including entities specified in the said Regulation 2(1)(pp)(iii)(c) in the definition of promoter group. To give effect to this proposal, the said regulation would be deleted.</p>	<p>We do not agree with the proposal to delete Regulation 2(1) (pp)(iii)(c) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018</p>	<p>It is seen that promoters hold substantial stake in multiple body corporates which very frequently act in concert.  The words “promoter group” is referenced multiple times in the ICDR and plays a role almost as important to that of the promoter. Deletion of an important set of body corporates (effectively “sister companies”) from the definition of “promoter group” can lead to situations which reduce the integrity of the market.</p>
<p>5.</p>	<p>Page 5 Para C. a)  It is proposed that only the names and registered office address of all the Group Companies should be disclosed in the Offer Document. All other disclosure requirements like financials of top 5 listed/unlisted group companies, litigation etc., presently done in the Draft Red Herring Prospectus can be done away. However, these disclosures may continue to be made available on the websites of the listed companies.</p>	<p>We are of the opinion that the other disclosure requirements are important and should not be done away with in the Draft RHP.</p>	<p>The information being presented today in the RHP is material and important for potential investors to make decisions on whether to subscribe to the issue or not. As it is, investors struggle with the disclosures on financial and related party transactions which are not standardized and are of inconsistent quality. We feel the benefits of more disclosure of information outweigh the costs, financial or otherwise, that may be incurred by issuers in making such disclosures.</p>
<p>6.</p>	<p>Page 8 Para D a)</p>	<p>We urge SEBI not to take a decision on the change in the concept of promoter and</p>	<p>Looking at other jurisdictions, the definition of promoter / person in control is usually a</p>



<p>(a) Whether the existing concept of promoter and promoter group should continue or there is a need to shift to the concept of 'person in control' or 'controlling shareholders' and 'persons acting in concert', respectively</p> <p>(b) and in case of latter, what should be the timeframe and manner for making such a shift.</p>	<p>promoter group in a hurry. While they may be legacy terms which need an update, any alternatives should be well thought through. Hence, we suggest that SEBI dovetail into this matter in a more structured manner and bring out a more detailed consultation paper.</p>	<p>combination of objective and subjective factors. Any move from the concept of "promoter" and "promoter group" to "person in control" / "controlling shareholders" can have wide and far-reaching implications. We are of the opinion that this needs to be dwelled upon in greater detail including by considering its impact on other SEBI as well as MCA / RBI / IRDA laws and regulations.</p>
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Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA at +91 98196 30042 or at [advocacy@iaipirc.org](mailto:advocacy@iaipirc.org)

Sincerely yours,

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Indian Association of Investment Professionals, Member Society of CFA Institute