

SEBI proposes recalibration of MPS norms for CIRP cases under IBC | Also proposes enhanced disclosures, removal of lock-in

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The Securities and Exchange Board of India (SEBI) on August 19, 2020 has released a consultation paper (**Consultation Paper**) seeking comments/ views on - recalibration of the threshold for minimum public shareholding (MPS) norms in companies that undergo corporate insolvency resolution process (CIRP) under the Insolvency and Bankruptcy Code, 2016 (IBC) and seek relisting of its shares pursuant to implementation of the approved resolution plan. The Consultation Paper ([available here](#)) recognizes that the management and governance of listed entity during CIRP undergoes fundamental changes and there is a need for providing a suitable framework for compliance with securities law and MPS norms, to ensure healthy participation in trading of such companies.

The Primary Market Advisory Committee has recommended that SEBI seeks comments on the following important changes:

<p>Options for meeting MPS norms</p>	<p>Option 1 It is proposed that post-CIRP, companies may be mandated to achieve at least 10% MPS within 6 months and 25% MPS within 3 years from the date of breach of MPS norms. Currently, in case public shareholding of a listed company falls below 10% MPS as a result of implementation of resolution plan under IBC, then the same shall be increased to at least 10% MPS within 18 months from the date of fall and 25% MPS within 3 years from the date of fall.</p> <p>Option 2 It is proposed that post-CIRP, companies may be mandated to have at least 5% MPS at the time of relisting. Such companies may be provided 12 months to achieve MPS of 10% and further 24 months to achieve MPS of 25%.</p> <p>Option 3 It is proposed that post-CIRP, companies may be mandated to have at least 10% MPS at the time of relisting. Such companies may be provided 3 years to achieve MPS of 25%.</p>
<p>Lock-in Requirements</p>	<p>SEBI has proposed removal of lock-in on shares of promoters/incoming investor so as to help achieve MPS (only to the extent to enable MPS compliance). This has been proposed in view of current lock-in requirement of 1 year which may make it difficult to achieving MPS compliance through means involving off-loading of shares by the incoming investor/ promoter.</p>
<p>Need to introduce a standardized reporting framework pursuant to approval of resolution plan? If so, what details may be mandated?</p>	<p>Some of the disclosure requirements could be as follows:</p> <ul style="list-style-type: none"> ▪ Pre and Post net-worth of the company ▪ Detailed pre and post shareholding pattern assuming 100% conversion ▪ Details of funds infused, creditors paid-off ▪ Additional liability on the incoming investors due to the transaction/ source of funding etc. ▪ Impact on the investor – revised P/E, RONW ratios etc. ▪ Names of the new promoters, key managerial persons(s) if any. Past experience in the business or employment. In case where promoter are companies, history of such company and names of natural persons in control. ▪ Brief description of business strategy ▪ Resolution plan (excluding confidential information, commercial secrets etc.)

SEBI has sought comments from the public on the Consultation Paper, which can be provided in the prescribed format till September 18, 2020.

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com

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