

## **Manner of increasing public shareholding to comply with Securities Contracts (Regulation) Rules, 1957**

### **1.0 Objective**

**1.1** This Memorandum seeks to place a proposal to introduce additional methods to comply with minimum level of public shareholding as required in terms of rules 19(2)(b) & 19A of Securities Contracts (Regulation) Rules, 1957, (SCRR).

### **2.0 Background**

**2.1** Government of India vide notification dated June 4, 2010 has introduced rule 19A in SCRR, which requires listed companies to achieve and maintain minimum public shareholding of 25% (10% for public sector companies). The rule also requires SEBI to specify the manner in which the public shareholding shall be increased to the specified minimum level.

**2.2** Pursuant to the approval of the Board in its meeting held on January 3, 2012, presently the following four methods are available for achieving minimum level of public shareholding as required in terms of rules 19(2)(b) & 19A of SCRR:

- a. Issuance of shares to public through prospectus;
- b. Offer for sale of shares held by promoters to public through prospectus;
- c. Sale of shares held by promoters through the secondary market i.e. OFS through Stock Exchange;
- d. Institutional Placement Programme (IPP)

**2.3** Market has responded positively to these methods and so far nine companies have used these methods with an intent to achieve minimum level of public shareholding. Promoters have offloaded / issuers have raised around Rs.3100 crore. Out of nine companies, six companies have achieved minimum public shareholding requirement through these methods. As per

information provided by Bombay Stock Exchange (BSE) / National Stock Exchange (NSE) as on date, 16 PSUs and 184 non-PSUs are required to increase public shareholding to the minimum level by June 2013. This would involve an amount of approximately Rs.32000 crore (Rs.11000 crore for PSU and Rs.21000 crore for non-PSU) as per July 2012 market prices.

### **3.0 Reference to PMAC**

**3.1** SEBI has been receiving representations from the market participants to provide for more methods to the non-compliant companies so as to enable them to achieve the minimum level of public shareholding in the stipulated time period.

**3.2** SEBI took note of the above and based on the twin principles of broad basing ownership and transparency, placed before the Primary Market Advisory Committee (PMAC) the suggestion of permitting Rights / Bonus Issue by companies for achieving minimum public shareholding, wherein the promoters of the company forgo/waive their rights/bonus entitlement in favour of the shareholders/public. The Committee appreciated the concerns of the industry towards attaining minimum public shareholding. The Committee acknowledged that there is a transparent framework in place for Rights/Bonus Issue and forgoing/waiving their rights by the promoters of the company in favour of shareholders/public. This would broad base the shareholding of the company. After deliberations, the Committee recommended that the suggestion merits favourable consideration and be taken up for implementation.

**3.3** It is proposed to accept the recommendation of PMAC which would provide additional methods to achieve minimum level of public shareholding to comply with the requirements of SCRR.

#### **4.0 Proposal**

##### **4.1 The Board is requested to**

- consider and approve the proposal contained in paragraph 3.3 above
- authorize the Chairman to take consequential and incidental steps to give effect to the decision by carrying out necessary amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 and Equity Listing Agreement.