

First Notes



SEBI proposes changes in the rights issue process

12 June 2019

First Notes on

- Financial reporting
- Corporate law updates
- Regulatory and other information**
- Disclosures

Sector

- All**
- Banking and insurance
- Information, communication, entertainment
- Consumer and industrial markets
- Infrastructure and government

Relevant to

- All**
- Audit committee
- CFO
- Others

Transition

- Immediately
- Within the next three months
- Post three months but within six months
- Post six months

Forthcoming requirement

Background

A rights issue is a further issue of capital by the issuer which is governed by Section 62 of the Companies Act, 2013 (2013 Act) and the Securities Exchange Board of India (SEBI) Issue of Capital and Disclosure Requirements (ICDR) Regulations, 2018. In a rights issue, a listed issuer provides an opportunity to the existing shareholders to buy additional securities of the issuer.

The 2013 Act and ICDR Regulations, 2018 lay down general conditions and procedure for rights issue. Every listed issuer is required to comply with the requisite conditions before making rights issue within the stipulated timelines. Additionally, SEBI incorporated norms related to fast track issue of capital in ICDR Regulations, 2018 to boost fund raising from markets. The fast track rights issue process provides all listed companies a fast track route for fund raising. Enabling significant reduction in timelines of rights issue process.

New development

SEBI on 21 May 2019 issued a discussion paper on Review of Rights Issue Process to explore ways to make the rights issue process more efficient. Currently, the listed issuer requires 55 to 58 days for undertaking rights issue process through the fast track route. In this regard, SEBI observed that during this duration the issuer company and the shareholders of the company are exposed to price risk leaving little incentive to shareholders to benefit from the rights issue price. Further the time duration enhances the chances of macro events impacting stock performance of companies, from the time issue price is announced. Considering this, SEBI proposed to reduce the timelines both in the pre issue opening phase and after issue closure such that the issuer and shareholders benefit from process efficiencies.

The discussion paper issued by SEBI evaluates means to reduce time between the announcement of terms of the issue and issue closing which would help in reducing price risks.

Recommendations

The subsequent section discusses the recommendations made by SEBI.



1. Reduction in notice period for record date

Currently, Regulation 42 of the SEBI Listing Regulations requires seven clear working days' notice for setting a record date. Additionally, Regulation 73(1) of ICDR Regulations, 2018 requires an issuer to determine issue price before determining the record date. Therefore, issuer is required to set issue price when board of the company decides the record date. Due to requirement of seven clear working days' notice, assuming no holidays other than weekend, in fact setting the record date requires a period of 11 to 13 days.

Proposal: SEBI proposes to reduce the notice period for setting a record date from seven to three working days under Listing Regulations. The requirement to determine issue price prior to record date may continue.



2. Replacing the requirements to publish a newspaper advertisement

Currently, the 2013 Act requires companies to complete dispatch of the letters of offer and composite application forms to shareholders of the company three days before issue opens. Further, Regulation 84 of the ICDR Regulations, 2018 requires the issuer to publish an advertisement in newspapers confirming completion of dispatch of the letter of offer and composite application forms.

Proposal: SEBI proposes to eliminate the requirement of giving a newspaper advertisement and requires an issuer to intimate stock exchanges before issue opening about dispatch completion. The shareholders/investors would be notified through the corporate announcements module on the exchange websites.



3. Moving to electronic modes

Currently Rights Entitlements (RE) are intimated to shareholders through Composite Application Form (CAF). Registrar of issue overprints RE in the CAF based on rights ratio post the record date and dispatches the same to shareholders. The shareholders can use CAF for either applying in the issue or renouncing the entire entitlements or request registrar of issue for split forms if partial renouncement is required. Further RE can be traded on the exchanges, however the settlement is physical.

Further, renouncer or renounee, in the current process, cannot apply through ASBA¹ as the registrar needs to verify validity of renouncement by verifying CAF. Application by a renounee requires payment through a bank and not ASBA. This process currently takes 13-15 days or more depending on number of shareholders.

Proposal – SEBI with an aim to reduce the time, has proposed following process changes:

- Dematerialisation of entitlements under a separate ISIN² – RE would be credited to shareholders' demat account.
- Shareholder can use such dematerialised RE for applying in the rights issue or renouncement, either in full or partially. The need to request of split forms would be done away with.
- Based on communication in the exchange notification for dispatch completion, shareholders holding shares in physical form would be required to provide details of their demat account to the registrar at least seven days before issue closing. Registrars would credit the entitlements to the demat account of such shareholder within two days of receipt of information.
- Overprinting of CAFs would not be required and application form in a format similar to current IPO³ form would be used. Such blank forms would be also available on the websites of stock exchanges.

¹ Applications Supported by Blocked Amount

² International Securities Identification Number

³ Initial Public Offering

- Shareholders and renounees would fill up the form/use online application facility provided by ASBA banks. Investors would need to indicate in the form the number of shares they intends to apply for, based on entitlements and any additional quantity.
- All investors would be required to mandatorily use ASBA as payment mode.
- Post the closure of the issue, the ISIN for the rights renunciation will be temporarily suspended. This would ensure that no trading/transfer is permitted thereafter.
- Registrar would receive application details from the stock exchange. The facility for correction of bid data on T+1 i.e. next working day after issue closing may be provided.
- Registrar would use the application file provided by stock exchanges, along with details of actual RE available in the demat account of all the applicants and details of amount blocked in the ASBA accounts. After the basis of allotment is approved, shares would be credited to the demat account of the applicants.
- Post allotment, the ISIN for REs would be cancelled. Company shall thereafter obtain listing and trading permission.
- In cases where promoter/promoter group conducts an inter-se transfer of renunciation, the trading platform of the stock exchange can provide this facility through a separate window, pursuant to a request. This would ensure that flexibility provided for inter-se transfer between promoters and promoter group can be met.
- Stock exchanges may permit trading of rights entitlements and such facility would be available to ensure that renounees would be able to participate in the rights issue.
- Withdrawal of applications will not be permitted for any shareholder after issue closure.
- Fractional entitlements currently are rounded down, but preference for allotment of one share is given if such shareholder makes an application for additional shares. Registrar shall follow existing process in this regard under the new process.
- In certain cases, due to the rights entitlement ratio decided by the company, the entitlement of a shareholder may be less than one share. In such cases, shareholder receives CAF with zero entitlement but is eligible to apply in the current process. In the proposed system also, similar process would be adopted.

The following table suggests revised timelines considering the 2013 Act and ICDR 2018 process requirements:

Existing	Key events	Proposed
T	Board Meeting to decide record date and issue price	T
T+10	Ex-rights trading starts (one day before record date)	T+3
T+11	Record date	T+4
T+12	Dispatch starts	T+5
T+19	Dispatch completion	T+6
T+20	Dispatch confirmation advertisement	NA
NA	Company intimates stock exchange confirming dispatch completion for dissemination to public (and sends emails to shareholders confirming dispatch completion).	Before issue opening
T+23	Issue opening	T+9
T+37	Issue closing	T+23
T+51	Basis of allotment	T+27
T+52	Allotment of shares	T+28
T+55	Listing and trading	T+31

Our comments

SEBI's proposal is a step in the right direction and is aimed at improving the timelines of the rights issue process and making it efficient.

- **Reduction in notice period:** The reduction in the notice period would result in dissemination of information to shareholders and other investors at least four days before record date and at least three days before share starts trading on an ex-rights basis. This suggested change would help to reduce the time involved in rights issue process and also time available for speculation involved in execution and settlement on any trades consequent the decision on terms of the rights issue.
- **Requirement of newspaper advertisement:** Currently, all the material information is communicated to shareholders/investors through stock exchange announcements. Therefore, removal of the newspaper advertisement requirement is likely to reduce the time and cost of the rights issue process. Additionally, companies often use electronic means to communicate with their shareholders, on an ongoing basis. Therefore, the requirement to give a newspaper advertisement can be replaced with requirement to intimate the shareholders through the stock exchanges and email where such details are available.
- **Moving to electronic modes:** SEBI suggested process changes would reduce post issue timeline. Also electronic credit and trading of rights renunciation would make the process of renunciation more transparent and efficient. Payment through ASBA facility is investor friendly and enables faster completion of the post issue process.

The current rights issue process requires 26 days from the notice of the board meeting to the opening of the rights issue. The SEBI proposes to considerably reduce time required to nine days by streamlining the process with regard to board approval for the rights issue and setting of the record date. Also, 2013 Act requires the issue period to be minimum of 15 days and maximum of 30 days and requires 12 days for the allotment and listing process. Under the proposed framework the allotment and listing period would be reduced to eight days.

Bottom line

The SEBI seeks comments on discussion paper upto 21 June 2019. Therefore, we urge companies to analyse the impact of the proposals and provide comments to SEBI.



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Issue no. 34 – May 2019

The topics covered in this issue are:

- Ind AS 116, *Leases* – Transition options
- Clarity on reflecting tax uncertainty
- Impact of IBOR reforms
- Regulatory updates

SEBI proposes revised norms relating to buy-back of securities

11 June 2019

The Companies Act, 2013 (Sections 68 to 70) and the Securities and Exchange Board of India (SEBI) (Buy-back of Securities) Regulations 2018 prescribe certain conditions subject to which a company can purchase its own shares or other specified securities.

On 22 May 2019, SEBI issued a Discussion Paper (DP) proposing revised norms with respect to meeting the conditions for buy-back by listed companies.

The comments on the proposals could be submitted up to 12 June 2019.

This issue of First Notes provides an overview of the proposals made by SEBI.



Voices on Reporting

KPMG in India is pleased to present Voices on Reporting (VOR) – a series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

On 22 May 2019, KPMG in India organised a special session of VOR webinar to discuss significant impact areas of Ind AS 116, *Leases* on life sciences sector.

Also we discussed other important updates e.g. Appendix C, Uncertainty over Income Tax Treatments of Ind AS 12, Income Taxes. The new guidance seeks to bring clarity to the accounting for income tax treatments that are yet to be accepted by tax authorities. The appendix is effective for accounting periods beginning on or after 1 April 2019.

Click here to access the [audio recording](#) (mp3) and [presentation](#) (pdf).



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